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FRENCH PARLIAMENTARY ELECTIONS.

1. MITTERRAND DISSOLVED THE NATIONAL ASSEMBLY THIS EVENING (14 MAY).
LEGISLATIVE ELECTIONS (HELD OVER TWO ROUNDS IN FRANCE) WILL TAKE
PLACE ON 5 AND 12 JUNE.

2. COMMENT FOLLOWS.

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*HMA Lan Swallow
The Mitterrand
version of events -
v. the situation in*

MY TELNO 480: FRENCH PARLIAMENTARY ELECTIONS.

SUMMARY

1. THE CENTRISTS' RELUCTANCE TO RESPOND TO MITTERRAND'S OVERTURES HAS PERSUADED HIM TO DISSOLVE THE ASSEMBLY. THE ELECTORATE SEEMS DISPOSED TO GIVE HIM A PARLIAMENTARY MAJORITY, WHICH WOULD SECURE THE POSITION OF THE NEW GOVERNMENT. THE UDF AND RPR ARE LIKELY TO FIGHT THE ELECTIONS TOGETHER, BUT THERE WILL BE STRAINS OVER THE LINE TO ADOPT TOWARDS POLITICAL REALIGNMENT, AND LE PEN. THE COMMUNISTS (PCF) AND THE FRONT NATIONAL (FN) WILL LOSE MANY OF THEIR SEATS. LE PEN WILL NEVERTHELESS PLAY AN IMPORTANT ROLE IN DETERMINING HOW WELL THE UDF AND RPR DO. MITTERRAND'S FIRST ATTEMPT AT AN OPENING TO THE CENTRE HAS FAILED. HE WILL TRY AGAIN.

DETAIL

2. MITTERRAND'S DECISION TO DISSOLVE THE ASSEMBLY CAME AT THE END OF A WEEK IN WHICH HE WAS DISAPPOINTED BY THE CENTRE-RIGHT'S RELUCTANCE TO RESPOND TO HIS OVERTURES. MEHAIGNERIE (CDS LEADER) ANNOUNCED THE FORMATION OF THE GIR (GROUPE D'INITIATIVE ET DE REFLEXION - PARA 7 OF MY TELNO 464 REFERS) BUT REFUSED TO CONTEMPLATE CENTRIST PARTICIPATION IN ROCARD'S GOVERNMENT, OR EARLY NEGOTIATIONS ABOUT AN ALLIANCE WITH THE SOCIALISTS, WHICH MIGHT HAVE ENCOURAGED MITTERRAND TO DELAY DISSOLVING UNTIL SEPTEMBER. MEHAIGNERIE AND OTHER CENTRISTS ALSO CRITICISED ROCARD'S GOVERNMENT WHEN IT WAS ANNOUNCED, ARGUING THAT IT WAS TOO SOCIALIST IN EMPHASIS: THIS DESPITE THE FACT THAT A THIRD OF THE NEW MINISTERS ARE NON-SOCIALIST AND THAT THEY THEMSELVES HAD REFUSED TO PARTICIPATE.

3. GISCARD HAS CONTINUED TO SAY THAT HE WILL JUDGE THE NEW GOVERNMENT BY ITS DEEDS. THE CDS HAS ALSO ADOPTED MUCH THE SAME LINE (ALTHOUGH THEIR RELATIONS WITH GISCARD ARE STRAINED) WITH REGARD TO PARLIAMENTARY BUSINESS. THEY HAVE SAID THAT THEY WOULD NOT ENGAGE IN SYSTEMATIC OPPOSITION TO ROCARD'S GOVERNMENT BUT WOULD TREAT EACH PIECE OF LEGISLATION ON ITS MERITS, IN EFFECT PUTTING THE NEW ADMINISTRATION ON TRIAL. IT IS NOT SURPRISING THAT MITTERRAND'S

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RESPONSE HAS BEEN TO SHOW THE CENTRE AND THE RIGHT THAT, WITH A MASSIVE PRESIDENTIAL VICTORY BEHIND HIM, IT IS HE WHO WILL DICTATE THE TERMS, NOT THEY.

4. IN HIS DISSOLUTION ANNOUNCEMENT MITTERRAND DEPLORED THE LACK OF RESPONSE TO HIS AND ROCARD'S EFFORTS TO PROMOTE A POLITICAL OPENING AND SAID HE MUST ASK THE COUNTRY FOR A PARLIAMENTARY MAJORITY ON WHICH THE NEW GOVERNMENT COULD RELY. THE OPINION POLLS SUGGEST THAT THE ELECTORATE IS IN THE MOOD TO GIVE HIM WHAT HE WANTS. AN IPSOS POLL PUBLISHED TODAY (15 MAY) SHOWS THAT 47 PER CENT WANT NEW LEGISLATIVE ELECTIONS (WITH ONLY 28 PER CENT OPPOSED): AND THAT 68 PER CENT APPROVE HIS CHOICE OF ROCARD AS PRIME MINISTER. THE SAME POLL SHOWS THAT IN EARLY ELECTIONS VOTING INTENTIONS ARE:

SOCIALIST PARTY (PS)	41 PER CENT
RPR	24 PER CENT
UDF	15 PER CENT
FRONT NATIONAL	8 PER CENT
COMMUNIST PARTY (PCF)	6 PER CENT
ECOLOGISTS	4 PER CENT

THIS WOULD GIVE THE SOCIALISTS A CLEAR MAJORITY IN THE ASSEMBLY. (IPSOS SPECULATES THAT THE PS WOULD WIN ABOUT 350 OF THE 577 SEATS). A MEASURE OF THE STRENGTH OF THE PS'S POSITION AS IT BEGINS THE CAMPAIGN IS THAT THE SOCIALISTS' SWEEPING PARLIAMFNTARY VICTORY OF 1981 WAS ACHIEVED WITH ONLY 37.5 PER CENT OF THE VOTE (ALTHOUGH COMPARISONS ARE NOT EXACT BECAUSE THERE HAVE SINCE BEEN CONSTITUENCY BOUNDARY CHANGES).

5. THE CENTRE AND RIGHT ARE ENERGETICALLY CRYING FOUL, CLAIMING THAT MITTERRAND AND ROCARD HAVE NOT BEEN SERIOUS ABOUT A POLITICAL OPENING AND THAT THEIR INTENTION ALL ALONG HAS BEEN TO DISSOLVE AND OBTAIN A SOCIALIST MAJORITY IN THE ASSEMBLY. THE POLEMICS WILL CONTINUE. THE CENTRISTS NEVERTHELESS SEEM GUILTY OF A HESITATION WHICH COULD NOW COST THEM A LARGE NUMBER OF SEATS. THEY HAVE ALSO OVER ESTIMATED THE STRENGTH OF THEIR OWN POSITION AND UNDERESTIMATED THAT OF THE PRESIDENT. DESPITE THE POLITICAL DIFFICULTIES IN CHANGING ALLIANCES, THEY SHOULD HAVE REALISED THAT, UNLESS THEY DISPLAYED A WILLINGNESS TO MEET MITTERRAND HALF WAY, HE WOULD TAKE OUT EARLY INSURANCE BY CALLING ELECTIONS TO SECURE THE NEW GOVERNMENT'S POSITION. THEIR OWN BEHAVIOUR HAS DONE MUCH TO PROVOKE THE DISSOLUTION THEY WISHED TO AVOID.

6. THE PROSPECT THAT THE CENTRISTS MIGHT BREAK WITH THE UDF AND FORM

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AN AUTONOMOUS POLITICAL GROUP AROUND THE GIR IS NOW POSTPONED. THEY WILL REMAIN IN THE UDF TO FIGHT THE ELECTIONS, AND THE UDF ITSELF WILL PROBABLY COOPERATE WITH THE RPR TO PUT FORWARD A SINGLE UDF-RPR CANDIDATE IN MANY CONSTITUENCIES. BUT THIS WILL BE A SHORT-TERM ALLIANCE OF CONVENIENCE, NOT CONVICTION. THE CENTRISTS ARE STILL INTERESTED IN A POLITICAL REALIGNMENT, DESPITE THEIR INITIAL HESITATION, AND WILL BE PRESSED TO CLARIFY THEIR POSITION DURING THE CAMPAIGN. THIS IS LIKELY TO BE AT ODDS WITH THEIR NOMINAL RIGHT WING ALLIES WHO OPPOSE ANY REALIGNMENT: THE CONTRADICTION WILL SHOW THROUGH.

7. THERE WILL ALSO BE SHARP DIFFERENCES WITHIN THE TRADITIONAL RIGHT ABOUT THE ATTITUDE TO ADOPT TOWARDS LE PEN. THE CENTRISTS ARE OUTSPOKENLY HOSTILE TO ANY DEALS, WHEREAS SOME OF THEIR UDF AND RPR PARTNERS WILL BE ATTRACTED BY LE PEN'S OFFER TO JOIN FORCES AND FIGHT THE ELECTION IN A QUOTE UNITED FRONT UNQUOTE. AT THIS STAGE IT LOOKS AS IF THE LINE AT NATIONAL LEVEL WILL BE NO UDF-RPR DEALS WITH THE FN. AT LOCAL LEVEL, HOWEVER, SOME UDF AND RPR DEPUTIES WILL BE WILLING TO NEGOTIATE. MITTERRAND AND ROCARD WILL EXPLOIT THESE CONTRADICTIONS TO THE MAXIMUM.

8. THESE ELECTIONS WILL BE BY MAJORITY VOTING OVER TWO ROUNDS (THE 1986 ELECTIONS WERE BY PROPORTIONAL REPRESENTATION OVER ONE ROUND). THIS SHOULD SHARPLY REDUCE THE REPRESENTATION OF THE EXTREMES IN THE ASSEMBLY. IF THE IPSOS POLL WERE TO PROVE ACCURATE, THE FN AT 8 PER CENT AND THE PCF AT 6 PER CENT WOULD BOTH BE REDUCED TO A HANDFUL OF DEPUTIES. (THE FN FIGURE SHOULD BE TREATED WITH PARTICULAR CARE. THE OPINION POLLS HAVE CONSISTENTLY UNDERESTIMATED LE PEN'S APPEAL, ALTHOUGH THERE IS EVIDENCE TO SUGGEST THAT SOME OF THE PROTEST VOTE THAT WENT TO HIM IN THE FIRST ROUND OF THE PRESIDENTIAL ELECTION WOULD NOT GO TO THE FN IN PARLIAMENTARY ELECTIONS.)

CONCLUSION

9. MOST PEOPLE ARE SURPRISED AT THE SPEED OF THE CHANGE IN THE MAKE-UP OF THE POLITICAL SPECTRUM. TWO RIVAL HYPOTHESES ARE POSSIBLE: THE FIRST, WHICH I FIND IMPLAUSIBLE, IS THAT THE PRESIDENTIAL ELECTION AND THE POLLS ARE REVEALING A MASSIVE SWING OF FRENCH OPINION TOWARDS SOCIALISM AS AN IDEOLOGY. THE SECOND IS THAT MITTERRAND HIMSELF HAS SUCCESSFULLY PUT ACROSS AN IMPRESSION OF MODERATION, CENTRISM AND LACKING IDEOLOGICAL IDENTIFICATION, AND HAS SO EFFECTIVELY IMPOSED THIS IMAGE ON THE SOCIALIST PARTY (WHICH WAS NOTABLY SILENT DURING THE CAMPAIGN AND WAS PERSUADED NOT TO PUT FORWARD A DETAILED RADICAL PROGRAMME) THAT MODERATES, FRIGHTENED BY THE RISE OF THE EXTREME RIGHT, ARE SWINGING BEHIND THE ONLY

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COMBINATION OF PRESIDENT AND PARTY WHICH OFFERS INSTITUTIONAL
COHERENCE AND STRONG LEADERSHIP, AND THE PROSPECT OF MAINTAINING
MODERATE POLICIES. THE CAMPAIGN ITSELF, OVER THE NEXT THREE WEEKS,
WILL SHOW WHETHER THE SECOND HYPOTHESIS HOLDS WATER.

10. I SHALL TELEGRAPH SEPARATELY ON THE IMPLICATIONS OF THE
ELECTIONS FOR FRENCH PARTICIPATION IN BILATERAL AND INTERNATIONAL
MEETINGS.

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THE FRENCH ECONOMY

SUMMARY

1. BEREGOVY'S REAPPOINTMENT AS FINANCE MINISTER, AND HIS INITIAL REMARKS, REASSURE FINANCIAL MARKETS AND INDUSTRY. APPOINTMENT OF FAUROUX, A CENTRIST, FORMER BUSINESSMAN, TO AN EXPANDED MINISTRY OF INDUSTRY HAS ALSO BEEN CALMLY RECEIVED. LESS WELCOME TO THEM IS THE CALLING INTO QUESTION BY THE EMPLOYMENT MINISTER, DELEBARRE, OF THE LAST GOVERNMENT'S RELAXATION OF REDUNDANCY LAWS. THE ECONOMY CONTINUES TO PERFORM BETTER THAN EXPECTED, BUT SOME QUESTION MARKS OVER THE REST OF 1988 AND PARTICULARLY 1989.

DETAIL

2. THE MARKETS RESPONDED CALMLY LAST WEEK TO MITTERRAND'S VICTORY AND TO THE REAPPOINTMENT OF BEREGOVY AS FINANCE MINISTER, THE FRANC EDGING UP SLIGHTLY IN FOREIGN EXCHANGE MARKETS, AND INTEREST RATES DOWN. BEREGOVY, WHO HELD THIS POST FROM SUMMER 1984 TO SPRING 1986, SEEMS LIKELY TO HOLD ON TO IT AFTER THE LEGISLATIVE ELECTIONS NOW SCHEDULED FOR 5 AND 12 JUNE. (TRESOR AND OTHER FINANCE MINISTRY OFFICIALS WILL BE LESS PLEASED WITH HIS DECISION TO VACATE THE LOUVRE AND MOVE TO THE NEW SITE AT BERCY, ON THE EASTERN EDGE OF PARIS PROPER.)

3. BEREGOVY'S STATEMENTS SINCE HIS APPOINTMENT WILL HAVE PROVIDED FURTHER REASSURANCE THAT A ROCARD-BEREGOVY GOVERNMENT IS UNLIKELY TO MEAN A RADICAL DEPARTURE FROM CHIRAC AND BALLADUR. HE HAS SPOKEN OF THE NEED TO ABOLISH, 'AS A SYMBOLIC GESTURE', THE FEW REMAINING EXCHANGE CONTROLS, TO STRENGTHEN THE FRANC WITHIN THE EMS WHILE REDUCING INTEREST RATES (NOT OF COURSE AN EASY TRICK), AND TO CONTINUE TO REDUCE THE BUDGET DEFICIT. THIS LAST WILL NOT BE EASY EITHER, GIVEN THE COMMITMENTS INHERITED FROM THE PREVIOUS GOVERNMENT AND MITTERRAND'S COMMITMENT TO FURTHER SPENDING ON EDUCATION, RESEARCH, TRAINING, AND A MINIMUM WAGE FOR ALL. THE PROMISED REINTRODUCTION OF A WEALTH TAX WILL HELP TOWARDS THE COSTS OF THESE, BUT BEREGOVY HAS SAID THAT 'NO BUDGET WILL BE TABOO' IN THE SEARCH FOR ECONOMIES.

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4. BEREGOVY HAS SAID NOTHING YET ABOUT PRIVATISATIONS, OTHER THAN THAT THE HARD CORE ('NOYAU DUR') OF FRIENDLY SHAREHOLDERS IN COMPANIES PRIVATISED SINCE 1986, CONSTRUCTED - THE LEFT CLAIM - FROM BALLADUR AND CHIRAC'S FRIENDS AND ALLIES, WILL BE BROKEN UP. (THIS WILL APPARENTLY BE DONE BY THE SIMPLE EXPEDIENT - FOR WHICH A CHANGE IN THE LAW MAY HOWEVER BE REQUIRED - OF INSTRUCTING THE COMPANIES CONSTITUTING THE HARD CORE, WHETHER PUBLIC OR PRIVATE SECTOR, TO REGARD THEIR SHARES AS A FINANCIAL ASSET INCURRING NO SPECIAL OBLIGATIONS.) TRESOR OFFICIALS SAY PRIVATELY, HOWEVER, THAT THEY DO NOT RULE OUT SOME INJECTION OF PRIVATE CAPITAL INTO PUBLIC ENTERPRISES BY RAISING MONEY ON THE STOCK EXCHANGE OR BY SELLING OFF SUBSIDIARIES (WHICH MIGHT ALSO REQUIRE A CHANGE IN THE LAW).

5. INDUSTRY WILL HAVE BEEN REASSURED BY THE APPOINTMENT OF THE CENTRIST, FAUROUX, (FORMERLY BUSINESSMAN, LATTERLY HEAD OF ENA), AS MINISTER FOR INDUSTRY, FOREIGN TRADE (PINCHED FROM THE FINANCE MINISTRY) AND REGIONAL DEVELOPMENT. FAUROUX HAS SPOKEN OF HIS ENLARGED MINISTRY AS A FRENCH MITI. (IT ALSO NOW BROADLY COINCIDES WITH THE GROUND COVERED BY THE DTI). HE HAS SPOKEN OF THE NEED FOR AN INDUSTRIAL POLICY, BUT DEFINES THIS AS GOVERNMENT WORKING WITH INDUSTRY TO IMPROVE FRANCE'S MANUFACTURING PERFORMANCE. HE HAS DESCRIBED HIS TOP PRIORITY AS BEING TO RIGHT FRANCE'S INDUSTRIAL TRADE DEFICIT.

6. LESS WELCOME TO BUSINESS, THOUGH NOT UNEXPECTED, WILL HAVE BEEN THE CALL BY DELEBARRE, REAPPOINTED AS EMPLOYMENT MINISTER, ON EMPLOYERS AND EMPLOYEES TO RENEGOTIATE REDUNDANCY PROCEDURES. CHIRAC'S 1986 REPEAL OF THE REQUIREMENT FOR COMPANIES TO SEEK AUTHORISATION BEFORE DECLARING REDUNDANCIES WAS SEEN BY INDUSTRY AS A KEY MOVE TOWARDS LABOUR FLEXIBILITY, AND TO GO BACK ON THIS WOULD BE UNPOPULAR.

7. MEANWILE RECENT INDICATIORS SUGGEST THAT THE ECONOMY HAS CONTINUED TO PERFORM BETTER THAN EXPECTED IN THE LAST FEW MONTHS. INDUSTRIAL PRODUCTION WAS UP 5 PERCENT IN THE YEAR TO FEBRUARY 1988, THE BALANCE OF TRADE IN SURPLUS BY 1.8 BILLION FRANCS IN MARCH (THE RESULT OF 5 AIRBUS SALES) COMPARED TO A 5.2 BILLION FRANC DEFICIT IN FEBRUARY, AND FIRST QUARTER 1988 INFLATION AT AN ANNUAL RATE OF 2.6 PERCENT. INSEE ARE, HOWEVER, COUTIOUS ABOUT THE REST OF THE YEAR, SUGGESTING THAT GROWTH MAY SLOW, INFLATION RISE AND THE BALANCE OF PAYMENTS DETERIORATE. THE UNDERLYING UNEMPLOYMENT TREND LOOK STILL TO BE RISING TOO. PRIVATELY, FINANCE MINISTRY OFFICIALS ARE RELATIVELY SANGUINE ABOUT 1988, PROVIDED THERE IS NO EXTERNAL SHOCK,

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BUT WORRIED ABOUT 1989.

8. PSE ADVANCE PS/CHANCELOER OF THE EXCHEQUER, LITTLER, MATHEWS, TSY,
PS/GOVERNOR, LOEHNIS, B/E, PS/LORD YOUNG, MISS NEVILLE-ROLFE, DTI,
BRAITHWAITE, RICHARDSON, FCO

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PS/GOVERNOR, BANK OF ENGLAND
MR LOEHNIS, BANK OF ENGLAND

PS/LORD YOUNG, DTI
MISS NEVILLE-ROLFE, DTI
MR BRAITHWAITE, DUSS
MR RICHARDSON, ERD.
RC

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*Le Ministre d'Etat,
Ministre de l'Economie, des Finances
et du Budget*

Paris, le 17 mai 1988

mp

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Monsieur l'Ambassadeur,

Je vous remercie de m'avoir fait parvenir le texte du message qui m'a été adressé par Monsieur Nigel LAWSON, Chancelier de l'Echiquier.

Voulez-vous, en lui transmettant mes remerciements, lui dire combien j'ai été sensible à ses propos amicaux.

Nous nous retrouverons cette semaine à la réunion du Conseil Ministériel de l'OCDE et je me réjouis de cette reprise de nos rencontres.

Veillez croire, Monsieur l'Ambassadeur, à l'assurance de mes sentiments distingués.

mp

Pierre BEREGOVOY

Son Excellence
Monsieur Ewen FERGUSSON
Ambassadeur de Grande-Bretagne

35, rue du Faubourg Saint Honoré

75008 PARIS

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FROM PARIS SAVING TELNO 26 OF 19 MAY 1988
TO FCO

REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE,
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FRANCE

FRANCE: ECONOMIC REPORT FOR APRIL 1988

SUMMARY

- Economic and financial sectors overshadowed by Presidential elections and legislative elections scheduled for 5 and 12 June. The markets and the franc have remained stable.
- Appointments of Pierre Bérégovoy as Minister of Finance and Roger Fauroux as Minister of Industry and Foreign Trade are welcomed.
- The economy has performed better than expected in recent months, though some worrying indicators on the horizon.
- GDP for 1987 stood at 2.4%, no figures as yet for first quarter.
- Agricultural revenues are up; and automobile sector improved its performance during first quarter 1988 by 5.8% over same period in 1987.
- March balance of trade in surplus by F1.8 billion, though underlying trend is for a worsening trade deficit.
- Balance of payments in January was in deficit by F1.2 billion, while provisional current account balance for January is in surplus by F2.2 billion.
- Inflation in first quarter was 0.7%, giving an annual figure of 2.6%. Underlying trend is for a second quarter increase to 1%.
- Unemployment fell in March to 2,535,100, the first monthly fall since November 1987 (10.8% of labour force).
- Pay rises for 1988 continue to be under 3%.
- New minimum incomes proposed by Rocard government.
- Paris Bourse remained steady and out performed other major international centres. CAC index closed at 307.7 on 13 May. Financial markets remain nervous about threat of higher international interest rates and uncertainty of political scene.
- Generally satisfactory year for banking sector, though performance varied sharply from bank to bank. Suez raises F4.8 billion, via a package of fund raising measures.

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Introduction

1. The two rounds of the Presidential elections on 24 April and 8 May have dominated the French political and economic scene over the last six weeks. The appointment of Michel Rocard and a predominantly socialist government on 12 May, followed by the dissolution of the National Assembly two days later, has created a degree of short term uncertainty which may effect the financial markets. Throughout the period under review, dealings in shares on the Bourse have remained reasonably steady, rising the day after Mitterrand's re-election, but only to drop back over the rest of the week. The franc has remained stable throughout the election period.
2. The appointment of Pierre Bérégevoy as Minister of the Economy, Finance and the Budget and the non-socialist Roger Fauroux as Minister of Industry, Foreign Trade and Regional Development have been generally welcomed in commercial and financial sectors as presaging broad continuity rather than change in the conduct of French economic policy. Bérégevoy has said that among his first priorities will be the consolidation of the position of the franc within the EMS, the abolition of the few remaining exchange controls, a reduction in the interest rates and a reduction of the budget deficit. These stated priorities have confirmed, in the eyes of the financial sector, his pragmatic approach to economic policy. The main priorities of Roger Fauroux, a prominent businessman and former Directeur of the Ecole Nationale d'Administration (ENA), are to attack the current balance of payments deficit, especially in manufactured goods and to improve the general competitiveness of French industry. In this respect, he proposes that his ministry should be remodelled along the lines of MITI in Japan, thus signalling an increased involvement of the government in export trade promotion.

Economic Activity

3. According to national accounts figures released by INSEE on 2 May 1988, total GDP grew by 2.2% in 1987 (based on 1980 prices and taking into account technical readjustments). Marketed GDP growth for the same period was 2.4% (on an annual basis; 1986: 2.2%).
4. The agricultural sector recorded an improvement in its performance during 1987, with revenues up 4.1% (as against an increase of 0.7% in 1986). Agricultural products in 1987 had an overseas trade surplus of F4.38 billion, as against a trade deficit in manufactured products of F10.69 billion. The improved revenue position is accounted for by state subsidies, a decrease of 2.8% in the number of farms and an increase in agricultural GDP of some 3.1% (ie higher than the overall 1987 rate of increase of GDP). The EC partially approved, on 5 May 1988, French state subsidies for agriculture worth F3 billion over the next three years.
5. The automobile industry reported a 1.6% decline in car registrations in April 1988, the first decline after 11 months of increases (total number of registrations: 189,000). However, the consolidated 1988 first quarter figures were up 5.8%, at 727,124, compared to the same period last year.

Balance of Trade

7. In contrast to a foreign trade deficit of F5.2 billion FOB/FOB in February, the Ministry of Finance announced a foreign trade surplus in March of F1.8 billion (released just before the second round of the Presidential elections). Exports in March were valued at F81.8 billion (an increase of 9.6% over February) while imports were F80.0 billion (down 0.2% over February). The export figures for March were inflated by the sale of five Airbuses. The improvement in March also showed a marked increase in the exports of manufactured products (+10.5% compared to February) of which car exports (+21.5%), intermediate goods (+9.2%) and capital goods (+9.2%) recorded the strongest rises. Despite this surplus, the underlying trend, according to INSEE, is for a worsening trade deficit in the coming months.

8. At the same time, it is worth noting that the order for 30 Airbuses and options for another 16, recently placed by International Lease Finance of the USA will lead to distortions in French foreign trade figures (increased imports of semi-finished products from partner countries, followed by the French export of the finished product). These distortions should not start to become evident before 1990.

Balance of Payments

9. The Ministry of Finance also announced in early May that the balance of payments in January 1988 was in deficit by F1.2 billion. However, the provisional current account balance for January records a surplus of F2.2 billion (compared to a deficit in December of F2.4 billion).

Inflation

10. In an INSEE report published on 10 May, first quarter inflation was 0.7%, giving an annual figure of 2.6%. This is the lowest first quarter inflation rate since the early 1960s, though INSEE predict that inflation will increase during the second quarter, to 1%. The provisional April figure, just released, underlined this deterioration with the retail price index recorded at 0.5% (against 0.3% in March).

Labour Market

11. Unemployment fell during March to 2,535,100 seasonally adjusted, 10.3% of the labour force: the first drop since November 1987. The announcement, which came on 28 April between the two rounds of the Presidential election, was greeted with some scepticism. It appears that a special effort was made in March to improve take up of employment and training schemes for the unemployed.

12. The unadjusted unemployment total was 2,547,800. The age breakdown (sa) was:-

under 25	760,500
25-49	1,391,100
50 and over	383,500

Pay

13. Most pay offers for 1988 continue to be under 3%. But some easing up is expected following the election of the Socialist government. There are long-running pay disputes in two major companies - SNECMA (aero-engines) and Michelin - and a number of minor ones. Total labour costs fell in 1987, according to provisional national accounts figures published by INSEE, reflecting low pay increases combined with significant productivity gains.

14. The government announced on 18 May that, if they are returned to power at the forthcoming elections, they would introduce a minimum income at the end of June. This would be linked to training or other activity. It would be F2000 a month for a single person, F3000 a month for a couple and F600 a month per dependent. This additional expenditure would be funded, in part, by the reintroduction of the wealth tax.

Social Security

15. Mid-year accounts of the 'regime général' (the main social security and health care scheme which covers private sector employees and their families) indicated that the December 1987 forecast of an end-1988 deficit of F19 billion is unlikely to be exceeded. Receipts have been higher than expected.

The Financial Markets

16. Trading on the Bourse in the lead up to the Presidential elections was thin, though the overall performance of the Bourse was better than that of the other major international markets. Share prices gained 1.3% on the day after Mitterrand's re-election, though these gains were lost in the course of the week (dealings in shares were quieter than normal due to a public holiday). The CAC index closed at 307.7 on 13 May, a loss of 1% compared to the level of 7 May. The financial markets remain nervous, as a result of the threat of higher international interest rates and the uncertainties of the forthcoming Assembly elections.

17. The franc remained largely unaffected by the Presidential elections, though increasing slightly in relation to the D-mark immediately after the elections. There is, however, still a commonly held view that the franc remains overvalued in relation to the mark within the EMS. Interest rates fell after the elections and stood at 9.22% on 11 May, for 7-10 years government securities.

18. Neither the bond market nor the MATIF (financial futures market) have been adversely affected by the Presidential election results.

Banking

19. The French banking sector reported a generally satisfactory year in 1987, though performance varied sharply from bank to bank. Overall, the sector reported a c15% increase in profits over 1986 (some +F14 billion). In terms of turnover, 1987 was a good year, though total receipts remained more or less stagnant. A number of banks considerably increased their net consolidated profits: Crédit Lyonnais (+22%), Paribas (+23%), CCF (+23%); while some reported significant drops in profits: BNP (-5.9%), Indo Suez (-13%), CIC (-31%).

20. The 1987 results of the three largest banks were as follows:

	BNP		Crédit Lyonnais		Société Générale	
	billion francs	change (%) 1987/86	billion francs	change (%) 1987/86	billion francs	change (%) 1987/86
Total receipts	29.8	+1.7	26.9	+3.1	28.6	+3.7
Admin costs	20.5	+5.4	17.5	+5.9 (*)	19.5	+10.9 (**)
Gross operating profits	9.4	-5.7	8.8	-2.8	9.2	-8.9
Provision funding	4.9	-4.2	5.3	-14.3	5	-31
Net Consolidated profits	2.8	-5.9	2.2	+22	2.4	+3.2
Service charges as % of total receipts	21.7%		23%		26%	
Total staff changes in 1987	-1.7%		-0.8%		-1%	

* +7.3% at a constant structure, cost tied up to privatisation of cF300 million

** +4.1% at a constant structure

(Source: Le Monde, 10 May 1988)

21. The Compagnie Financière de Suez announced on 9 May, a package of fund raising measures (new equities, warrant options for existing shareholders, the involvement of institutional investors in Suez International and rationalisation of a number of subsidiaries), worth some F4.8 billion. These measures are aimed at strengthening its capital assets, and to cover the cost of its F6.6 billion stake in Société Générale de Belgique. The core of 'noyaux durs' (friendly shareholders) has been strengthened by these fund raising measures, and their controlling interest now stands at over 50%.

Assessment of Economic Prospects

22. Despite the current political uncertainty, the overall economic prospects appear to be reasonably stable. There are, however, a number of worrying economic indicators. The underlying trend is for an increase in unemployment and a lack of improvement in new job creation. The balance of trade remains a problem, with INSEE predicting a deficit in manufactured goods of some F8 billion per quarter in the first six months of 1988. Production costs are also expected to rise, because of an increase in imported primary resources - up 20% in the first quarter of 1988 compared to the same period in 1987, combined with an over rapid rise in private sector services costs. INSEE are also worried about the dangers of slower growth and increasing inflation throughout the rest of 1988.

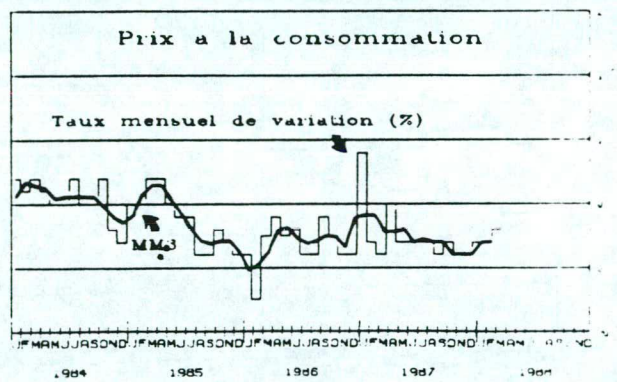
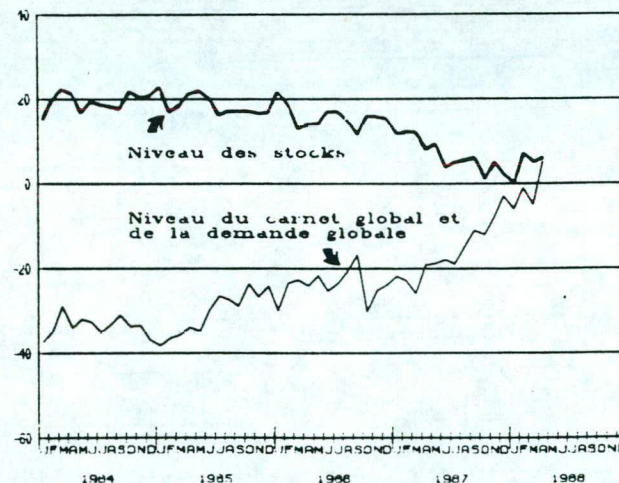
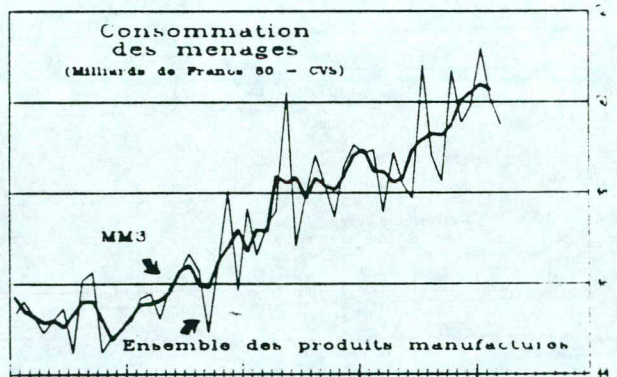
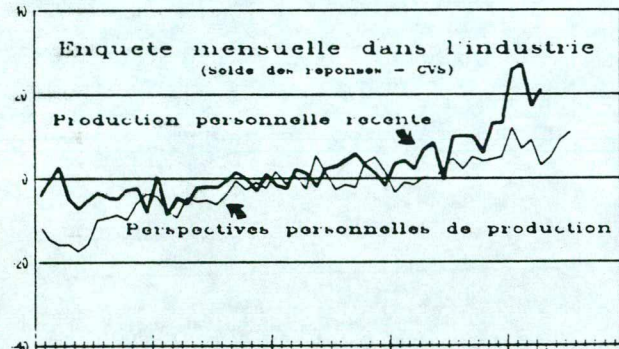
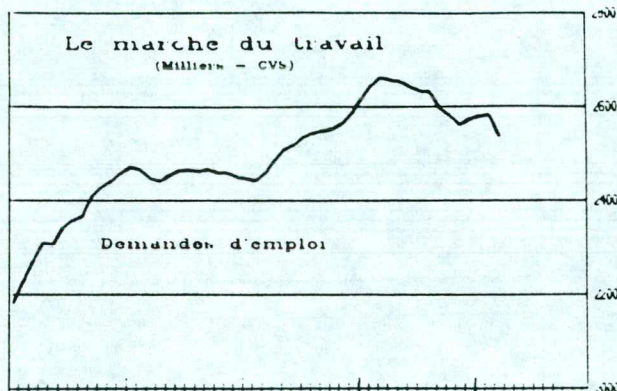
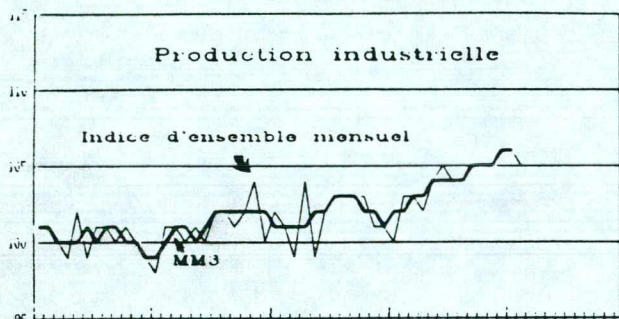
D'après l'enquête mensuelle d'avril, la production industrielle a continué de croître à un rythme soutenu, bien que peut-être inférieur à celui observé en début d'année.

Après le haut niveau enregistré en janvier, la consommation des ménages poursuit en mars le mouvement de baisse amorcé en février. Le repli de mars est en grande partie dû à une forte baisse de la consommation de biens d'habillement.

Le nombre de demandeurs d'emploi inscrits à l'ANPE baisse très sensiblement en mars (-1,8 %), revenant au niveau de juillet 1986.

L'indice mensuel des prix à la consommation augmente de 0,3 % en mars après 0,2 % en janvier et en février.

Les échanges extérieurs (FAB-FAB CVS-CJO) ont enregistré un excédent de 1,8 Milliard de F en mars : ce résultat provient de la stagnation des importations (0,1 %) associée à une forte progression des exportations (+ 9,6 %).



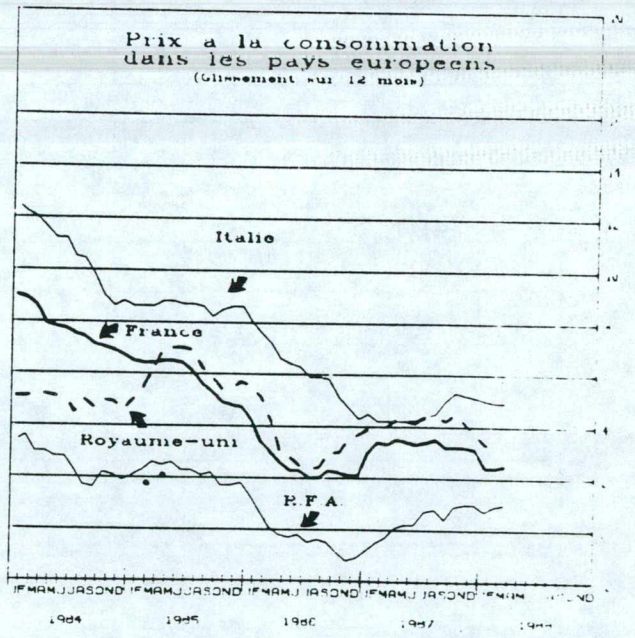
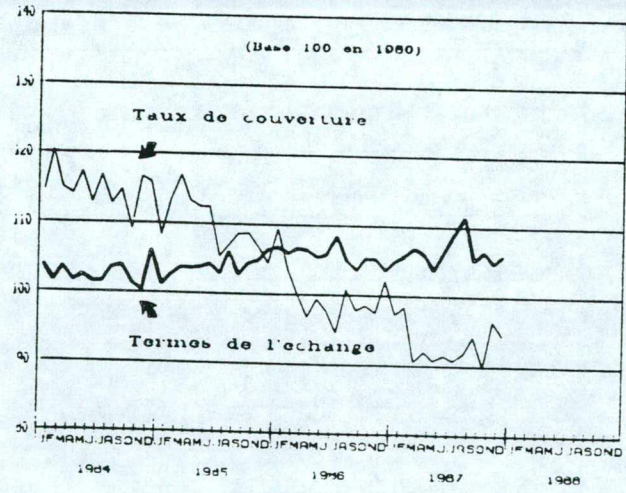
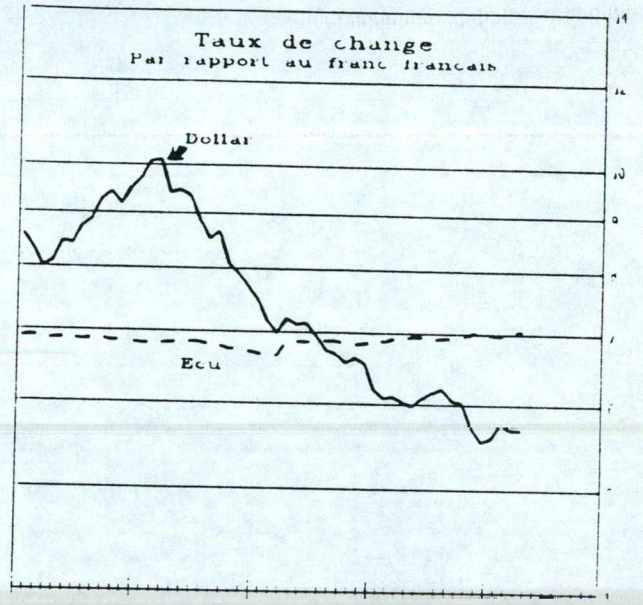
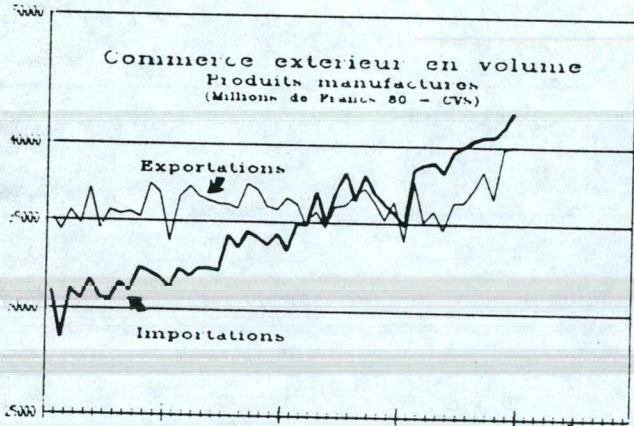
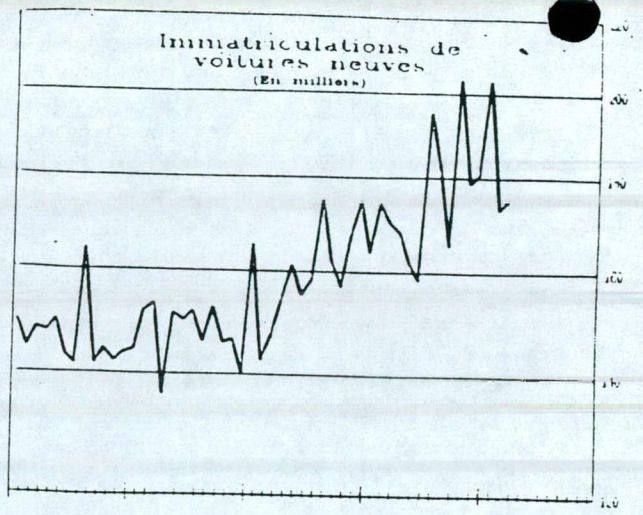
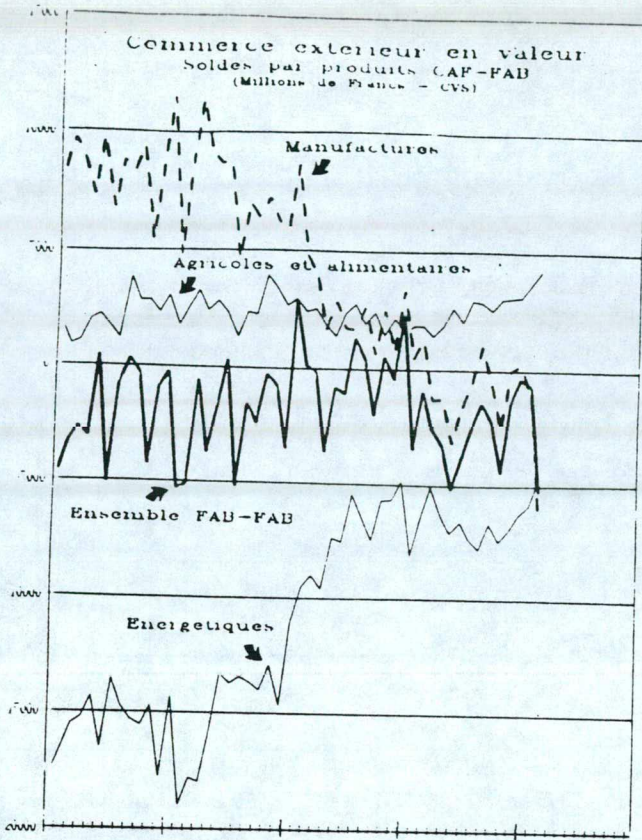


Table 1

	REAL GDP	NOM'L GDP	TL IND OUT	MAN'F'ING	HOUS.START	RET.SALES
	% change on year earlier					
1984	1.4	8.8	1.6	0.1	283.2	90.5
1985	1.6	8.0	1.6	-0.3	295.5	89.3
1986	2.2	7.5	2.4	0.9	295.5	90.3
1987	2.4	5.2	2.9	2.2	310.2	89.6
1987 Q1	0.3	1.1	0.6	-0.1	71.9	89.0
1987 Q2	1.0	1.5	1.1	1.9	75.8	88.6
1987 Q3	1.0	1.6	1.1	0.7	70.6	89.9
1987 Q4	0.6	1.2	0.7	0.6	91.9	90.9
1988 Q1					84.6	

=====

REAL GDP = Real GDP (marketed) (1)
 NOM'L GDP = Nominal GDP (marketed) (1)
 TL IND OUT = Total Industrial Output (1)
 MAN'F'ING = manufacturing (1)
 HOUS.START = Housing Starts in 1000s (2)
 RET.SALES = Retail Sales (Volume) 1978=100 (3)

- (1) Source : National Accounts (2 May 1988)
 (2) Source : Bulletin Mensuel de Statistiques (INSEE)
 (3) Source : Tendances de Conjoncture - Graphique sur 10 ans (INSEE)

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Table 1A

IND PROD RET.SALESV

IND PROD = Industrial production excluding
 building and civil engineering 1980=100 sa
 RET.SALESV = Retail Sales Value 1978=100 sa

1987

1987 Q1	105.0	
1987 Q2	103.0	
1987 Q3	90.0	
OCTOBER	105.0	181.4
NOVEMBER	105.0	177.0
DECEMBER	106.0	180.3
1987 Q4	110.0	

1988

JANUARY	106.0	178.6
FEBRUARY	105.0	181.5
MARCH		178.2

Source : INSEE Informations Rapides (6 May 1988)

Table 2

LABOUR MARKET
(All figures seasonally adjusted)

	Unemployment (sa) (1)	Total Employment (2)	Employment in non- agricultural market sector (1)	Employment in Industry excluding construction (3)	Industrial Disputes working days lost (excluding agriculture and public administration (3))	
					Local Disputes	General Action
1984				(31 Dec) 5,002,200		
1985	2,459,208 (Annual average)	21,228,000	(31 Dec) 13,482,800	(31 Dec) 4,876,800	726,717	158,175
1986	(Annual average) 2,515,583	21,247,000	(31 Dec) 13,488,500	(31 Dec) 4,755,400	567,689	473,830
1987	2,620,133 (Annual average)	21,232,000	(31 Mar) 13,494,300 (30 Jun) 13,515,400 (30 Sep) 13,491,800	(31 Mar) 4,733,400 (30 Jun) 4,710,600 (30 Sep) 4,678,900	511,545	457,518
Oct	2,571,700 (10.4%)				(Aug) 5,258	-
Nov	2,546,400 (10.4%)				(Sep) 40,212	1,335
Dec	2,572,800 (10.4%)				(Oct) 56,664	8,327
Jan 1988	2,577,800 (10.4%)				(Nov) 43,872	287
Feb	2,581,900 (10.5%)				(Dec) 55,955	3,158
March	2,535,100 (10.3%)				Jan 27,406	2,470

(1) INSEE Informations Rapides

(2) INSEE estimates

(3) Statistiques du Travail

Employment figures revised to take account of 1982 census results

- (1) Statistiques du Travail, Ministère des Affaires Sociales
- (2) INSEE: Informations Rapides
- (3) INSEE: Economie et Statistiques, January 1988

PRICES AND EARNINGS (% change)						
	Consumer Prices (2) Annual rate	Wholesale Prices: Metal Products (2) Annual rate	Average Earnings (1)	Unit Labour Costs: Mechanical and Electrical Industries (2)	Productivity (Annual average percentage rate of growth in the hourly productivity of labour for trading sectors excluding agriculture, housing and financial services (3))	
1984	6.7	7.3	(Apr) 7.9	8.5		
1985	4.7	-7.3	(Apr) 6.1	6.0		
1986	2.1	-4.8	(Apr) 5.3 (Oct) 3.9	4.5		
1987	3.1	-1.4	(Apr) 3.4	4.7	1967-73 5.2 1973-79 3.6 1979-85 2.5 1985-87 2.3 1987-91 2.9*	
1987				Monthly increase		
October	3.2	5.2		0.4		
November	3.2	5.2		0.3		
December	3.1	6.4		0.0		
1988						
January	2.4	8.3		1.0		
February	2.4	8.4				
March	2.5	9.9				

MONETARY INDICATIONS

Table 4

	M1	M3	3month avg	GOVT BOND	FF/\$	FF/£
1984	10.4	9.3	11.70	11.79	8.74	11.64
1985	8.2	6.6	9.95	10.47	8.99	11.55
1986	5.9	4.4			6.93	10.16
1987	(4.1)	(9.1)				
OCTOBER 87	3.7	8.9	8.33	10.66	6.02	10.00
NOVEMBER 87	4.1	9.1	8.79	10.02	5.71	10.14
DECEMBER 87	3.6	8.9	8.33	10.00	5.54	10.13
1988						

JANUARY	3.1	8.6	8.33	9.86	5.58	10.05
FEBRUARY			7.68	9.14	5.74	10.07
MARCH				9.23	5.69	10.42

figures in () are provisional

M1 = Annual growth (1)*

M3 = Annual growth % (1)*

3month avg = 3 month interest rate % avg on the money market TIOP (1)

GOVT BOND = Government Bond Yield % long term

TME (2)

FF/\$ = Franc/Dollar (2)

FF/£ = Franc/Pound (2)

* calculated on the basis of a 3 month average for the same period in each year (Bank of France)

(1) Source : Banque de France, Statistiques

Monétaires provisoires

(2) Source : Bulletin mensuel de Statistiques (INSEE)

Table 5

TRADE

	EXP (fob)	IMP (fob)	BALANCE	C ACC BAL
all figures seasonally adjusted				
1984	850.100	874.800	-24.700	-7.300
1985	906.000	936.700	-30.700	-1.500
1986	863.600	864.100	-0.500	20.200
1987	889.000	920.500	-31.400	-26.700
OCTOBER 87	74.964	79.832	-4.868	
NOVEMBER 87	79.279	80.627	-1.348	
DECEMBER 87	81.497	81.866	-0.369	-2.400
1988				

JANUARY	79.438	80.113	-0.675	2.400
FEBRUARY	74.253	79.487	-5.234	
MARCH	81.777	79.978	1.799	

EXP (fob) = Exports (1) billions of francs FOB sa

IMP (fob) = Imports (1) billions of francs FOB sa

BALANCE = Trade balance (1) billions of francs
FOB/FOB sa

C ACC BAL = Current Account Balance (2)
billions of francs (accumulated)

(1) Source : INSEE Informations Rapides

(2) Source : Ministry of Finance Communiqué

Table 6

	VOL-EXP	VOL-IMP	VAL-EXP	VAL-IMP

	Volumes and Value (1)			

1986	551.8	633.1	154.6	140.4
1987	553.0	682.0	155.2	138.8
1987				

JULY	46.1	57.7	158.2	139.2
AUGUST	46.7	57.3	159.8	139.0
SEPTEMBER	47.2	57.1	154.3	140.5
OCTOBER	46.4	58.5	156.3	140.2
NOVEMBER	49.0	58.1	156.6	141.7
DECEMBER	49.4	60.6	157.1	139.5

(1) Source : INSEE Informations Rapides

VOL-EXP = Volume of exports billions of
1980 francs FOB

VOL-IMP = Volume of imports billions of
1980 francs CIF

VAL-EXP = Value of exports FOB 1980=100

VAL-IMP = Value of imports CIF 1980=100

Table 7

FRANCE : TRADE WITH UK

	EXP TO UK	IMP FR UK	BALANCE
all figures in billicns of francs			

1984	64.284	72.888	(8.604)
1985	71.592	78.936	(7.344)
1986	72.708	58.068	14.640
1987	75.504	67.176	8.328
OCTOBER 87	6.627	6.097	0.530
NOVEMBER 87	6.844	5.755	1.089
DECEMBER 87	7.242	5.694	1.548
1988			

JANUARY	7.509	5.210	2.299
FEBRUARY	5.921	5.720	0.201

Source : INSEE Informations Rapides
 EXP TO UK = Exports to UK FOB
 IMP FR UK = Imports from UK CIF
 BALANCE = FOB/CIF

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OUR TELNO 412 AND TELECON GREENSTOCK-FRY: POSSIBLE CALL BY GISCARD
ON THE PRIME MINISTER

SUMMARY

1. GISCARD REMAINS KEEN TO SEE PRIME MINISTER BEFORE THE HANOVER
EUROPEAN COUNCIL, AFTER THE 5 AND 12 JUNE LEGISLATIVE ELECTIONS IF
THAT WOULD BE EASIER FOR US. WE UNDERLINED THE PRIME MINISTER'S
DIARY PROBLEMS FOR THE WHOLE OF JUNE.

DETAIL

2. WE SPOKE TODAY TO SAUVET, GISCARD'S DIRECTEUR DU CABINET,
EXPLAINING THAT WE HAD NOT YET HAD A DEFINITE REPLY FROM THE PRIME
MINISTER'S OFFICE, BUT THAT WE KNEW HER DIARY WAS VERY FULL BETWEEN
NOW AND THE END OF JUNE, GIVEN THE WEIGHT OF ENGAGEMENTS AT HOME AND
ABROAD. FURTHERMORE WE THOUGHT THERE MIGHT BE SOME HESITATION ABOUT
A VISIT TOWARDS THE END OF MAY, GIVEN THAT IT WOULD TAKE PLACE IN
THE MIDDLE OF THE LEGISLATIVE ELECTION CAMPAIGN. INDEED, GIVEN THE
ELECTION CAMPAIGN, WE WONDERED WHETHER GISCARD WOULD STILL WISH TO
MAINTAIN HIS REQUEST FOR A CALL ON THE PRIME MINISTER.

3. SAUVET SAID THAT HE HAD RECENTLY DISCUSSED THE PROPOSED VISIT
WITH GISCARD. GISCARD WOULD STILL VERY MUCH LIKE TO SEE THE PRIME
MINISTER - IF THE PRIME MINISTER'S DIARY PERMITTED - NOTWITHSTANDING
THE CALLING OF LEGISLATIVE ELECTIONS. GIVEN THAT SUCH A CALL WOULD
BE IN HIS CAPACITY AS JOINT CHAIRMAN OF THE COMMITTEE FOR EUROPEAN
MONETARY UNION, GISCARD HOPED IT MIGHT STILL BE POSSIBLE TO ARRANGE
A CALL AROUND THE END OF MAY, OR EARLY JUNE (THOUGH 5 AND 12 JUNE
THEMSELVES WOULD OBVIOUSLY BE OUT). GISCARD'S MAIN AIM WAS, HOWEVER,
TO SEE THE PRIME MINISTER BEFORE THE HANOVER EUROPEAN COUNCIL, AND
IF A MEETING BEFORE 12 JUNE CAUSED DIFFICULTIES, SAUVET HOPED IT
MIGHT BE POSSIBLE TO ARRANGE A MEETING AFTER THAT AND BEFORE
HANOVER.

4. WE SAID THAT A MEETING AFTER 12 JUNE SEEMED LIKELY TO OVERCOME
THE PROBLEM OF ELECTORAL SENSITIVITIES, BUT THE PROBLEM OF THE PRIME
MINISTER'S VERY HEVY PROGRAMME WOULD, OF COURSE, REMAIN. BUT WE
UNDERTOOK TO REPORT AND TO GET BACK TO SAUVET.

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CH/EXCHEQUER	
REC.	20 MAY 1988
NAME	Mr H.P. EVANS
COPIES TO	EST SIR G. LITTLER, MR LANKESTER, MR A.J.C. EDWARDS MR PERETZ MR MOUNTFIELD.

[Handwritten initials]

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 May 1988

[Handwritten: John 26/2, 23/5]

[Handwritten in a circle: JHL advu, pwr, HARR, 25/5]

[Handwritten: 25/5, 26/5]

Dear Alex,

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

I enclose a copy of a letter which I have sent to FCO and MOD seeking ideas for a possible initiative at the Prime Minister's meeting with President Mitterrand in Paris on 10 June.

It occurs to me that it might be worth extending the trawl to the Treasury, in case there is something in the financial and monetary area where an advance could be registered. One possibility might, for instance, be a joint statement on the development of the private ecu on which I gather the Treasury have had discussions with the French Ministry of Finance. If something were possible here, it might stand us in good stead in the discussion of financial matters at the European Council. More practically, I suppose it could also benefit the London market in ecu.

I may be wide of the mark. But perhaps you could let me know whether you see any possibilities here?

[Handwritten: Ho! Ho!]

[Handwritten signature: Charles Powell]

(C. D. POWELL)

Alex Allan, Esq.,
HM Treasury.

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to: FC

SKW

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 May 1988

Dear Tony,

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

You are, I am sure, giving thought to how we can take advantage of the Prime Minister's meeting with President Mitterrand to take a step forward in Anglo-French relations. The speed and warmth of the Prime Minister's message of congratulations, the fact of her telephone call and the suggestion of an early meeting have been useful in themselves but have also created a certain expectation which we shall need to meet. A routine consultation will appear a let-down. On the other hand, the fact that the visit comes in the middle of the election campaign for the National Assembly will presumably be something of a damper on the French side.

The most promising area for an initiative might be an attempt to build on the Prime Minister's earlier message to President Mitterrand about Anglo-French Defence Cooperation. There are constraints. We cannot plausibly agree anything which suggests a step forward on cooperation over TASM: indeed we may - in the light of the experts' judgment of what the French have to offer - need to start steering public expectations away from that. It would presumably be too much to expect the French to endorse the specific proposals in the Prime Minister's letter at this juncture. But perhaps an agreed statement from the meeting that both sides had instructed their respective Ministers, military staffs and officials to consider how defence cooperation between Britain and France could be taken further in practical ways in the context of strengthening the collective defence of Europe and to report to them could have a useful impact.

Although European Community issues and the Economic Summit are both bound to feature largely in the talks, the scope for any particular initiative or practical step looks to me a good deal less. I assume that we are in fact likely to face some difficulties with the French in both areas, and in particular over the prospects for the GATT round and the discussion of agriculture in it. Unless there is something lurking in the bilateral field of which I am unaware, the only other possible area to announce some form of enhanced Anglo-French consultations, cooperation or initiative might be the Middle East. I confess that I do not see at all clearly what form this might take. But we both have a clear common

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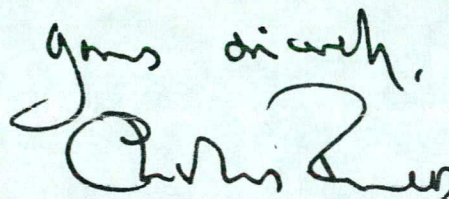
DSG

interest in avoiding Arab/Israel matters becoming a preserve of the US/Soviet bilateral contacts. We neither of us want to be excluded from an eventual international conference or framework meeting. I find it harder to see what joint action we could take: we should certainly encounter strong resistance from the United States, and French conduct over the hostages does not make them very credible partners just at present. But it might be worth looking at for the longer term.

A final possibility is some sort of commitment to more regular Anglo-French consultation at the highest level in future. But I think that we are already finding the obligation to hold regular and full-dress Summits a bit of an albatross. I doubt there is really scope for anything new here.

// In short, defence seems the only candidate for an initiative. What do you think?

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours sincerely,


(C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

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INFO SAVING HM CGS IN FRANCE

MY TELNO 481: FRENCH PARLIAMENTARY ELECTIONS.

SUMMARY

1. AT THE START OF THE OFFICIAL CAMPAIGN, THE SOCIALISTS (PS) ARE SO CONFIDENT THAT THEY ARE OFFERING NOT TO CONTEST SOME SEATS WHERE NON-SOCIALISTS ARE STANDING WHO ARE SYMPATHETIC TO MITTERRAND. THE UDF AND RPR HAVE CLOSED RANKS AND FORMED THE URC TO FIGHT THE ELECTIONS ON THE BASIS OF NO DEALS WITH THE PS AND NONE WITH THE FRONT NATIONAL (FN). GISCARD IS THE MOVING FORCE BEHIND URC BUT IT DOES NOT FOLLOW THAT HE WILL BE THE LEADER OF THE OPPOSITION ONCE THE ELECTIONS ARE OVER. LE PEN HAS REACTED ANGRILY TO THE URC'S EXCLUSION OF DEALS WITH THE FN AND IS THREATENING WRECKING TACTICS. BOTH THE FN AND THE COMMUNIST PARTY (PCF) WILL LOSE A LOT OF SEATS. TWO WEEKS BEFORE THE FIRST ROUND A CONVINCING PS VICTORY SEEMS INEVITABLE.

DETAIL

2. THE PARLIAMENTARY ELECTION CAMPAIGN BEGINS OFFICIALLY THIS WEEKEND. THE SOCIALISTS ARE IN CONFIDENT MOOD, BUOYED UP BY POLLS WHICH PUT THEIR SUPPORT AT OVER 40 PER CENT (THEIR BEST LEVEL EVER), AND WHICH PROMISE THEM AN OUTRIGHT MAJORITY IN THE ASSEMBLY. SO SURE ARE THEY OF VICTORY THAT THEY HAVE OFFERED NOT TO CONTEST 40-50 SEATS WHERE NON-SOCIALISTS STAND WHO ARE WILLING BOTH TO ENDORSE MITTERRAND AND DENOUNCE LE PEN. THE OFFER IS AIMED PARTICULARLY AT THE CENTRIST CDS WHOM MITTERRAND HOPES EVENTUALLY TO ENTICE INTO GOVERNMENT. THE LATTER HAVE SPURNED THE PROPOSAL, ALTHOUGH THERE ARE SIGNS THAT ONE OR TWO CDS CANDIDATES WILL BREAK PARTY RANKS AND ACCEPT THE PS' OFFER.

3. DEMORALISED AFTER CHIRAC'S DEFEAT, THE PARTIES OF THE TRADITIONAL RIGHT HAVE CLOSED RANKS. URGED ON BY GISCARD, THE UDF AND RPR HAVE FORMED AN UMBRELLA ORGANISATION TO FIGHT THE ELECTIONS CALLED QUOTE UNION DU RASSEMBLEMENT ET DU CENTRE UNQUOTE (URC) WHICH WILL PUT FORWARD A JOINT CANDIDATE IN EACH CONSTITUENCY. THE BASIS OF THE ARRANGEMENT IS A PROMISE BY THE CENTRISTS TO RESIST MITTERRAND'S

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BLANDISHMENTS, AND BY THE RPR TO RESIST LE PEN'S.

4. GISCARD HOPES THAT HE WILL NOW BE ABLE TO ESTABLISH HIMSELF AS LEADER OF THE OPPOSITION. IN THE SHORT TERM HE MAY SUCCEED: CHIRAC'S AUTHORITY IS DIMINISHED BY DEFEAT AND BARRE PREFERS TO BE A POINT OF REFERENCE RATHER THAN A PARTY LEADER. (BARRE HAS IRRITATED THE RIGHT IN RECENT DAYS BY REPEATING HIS WELL-KNOWN VIEW THAT A DISSOLUTION SHOULD FOLLOW A PRESIDENTIAL ELECTION, THAT MITTERRAND WAS THEREFORE SENSIBLE TO DISSOLVE AND THAT HE COULD EXPECT TO SECURE A WORKING MAJORITY: BOTH ASSERTIONS MAY BE TRUE BUT NEITHER IS WELCOME TO THE MEMBERS OF URC AT THE START OF AN ELECTION CAMPAIGN.) GISCARD'S CHANCES, HOWEVER, OF RETAINING THE LEADERSHIP OF THE RIGHT AFTER THE ELECTIONS ARE MUCH MORE DOUBTFUL. THE CDS STILL HOPES THAT IT WILL BE POSSIBLE EVENTUALLY TO CONSTRUCT AN AUTONOMOUS CENTRE GROUPING, WHICH COULD IN DUE COURSE SWITCH ALLEGIANCES AND WORK WITH THE PS. AND AMONG OTHER URC PARTICIPANTS IT IS HARD TO SEE CHIRAC OR LEOTARD ACCEPTING GISCARD'S TUTELAGE FOR LONG.

5. LE PEN, WHO PROPOSED A UNITED FRONT OF THE UDF, RPR AND FN FOR THE ELECTIONS, REACTED ANGRILY TO THE URC DECISION TO REJECT ALL DEALS WITH HIM. HE HAS SAID THAT HE WILL MAINTAIN FN CANDIDATES IN THE SECOND ROUND RUN-OFF ON 12 JUNE, EVEN WHERE THIS IS LIKELY TO LEAD TO THE RIGHT'S DEFEAT AND THE ELECTION OF A PS DEPUTY. IF HE MAKES GOOD HIS THREAT (AND CANDIDATES MUST SCORE 12.5 PER CENT IN THE FIRST ROUND TO BE ELIGIBLE FOR THE SECOND), THIS COULD COST THE URC A SIGNIFICANT NUMBER OF SEATS TO THE BENEFIT OF THE PS. HIS HOSTILITY IS LIKELY TO BE MOST DAMAGING LATER ON IN DEPARTMENTAL AND COMMUNAL ELECTIONS AND THAT THREAT SHOULD NOT BE UNDERESTIMATED.

6. THE REINTRODUCTION OF MAJORITY VOTING OVER TWO ROUNDS MEANS THAT THE FN WILL HAVE A STRUGGLE TO HOLD ON TO ANY OF THE 35 SEATS IT WON IN MARCH 1986 UNDER THE SYSTEM OF PROPORTIONAL REPRESENTATION. BUT THERE ARE SOME AREAS WHERE IT IS IN WITH A CHANCE. MARSEILLES, WHERE LE PEN SCORED NEARLY 30 PER CENT IN THE FIRST ROUND OF THE PRESIDENTIAL ELECTIONS, IS ONE OF THEM, WHICH IS WHY LE PEN HAS DECIDED TO CONTEST A MARSEILLAISE CONSTITUENCY NEXT MONTH. IF HE DOES WELL, HE WILL BE ENCOURAGED TO STAND FOR MAYOR OF MARSEILLES AT NEXT YEAR'S MUNICIPAL ELECTIONS.

7. THE COMMUNIST PARTY CAN ALSO EXPECT TO LOSE MANY OF ITS SEATS, ALMOST CERTAINLY FAILING, FOR THE FIRST TIME SINCE THE WAR, TO SECURE THE 30 SEATS NEEDED FOR OFFICIAL GROUP STATUS IN THE ASSEMBLY. EVEN MARCHAIS' SEAT IS NOW CONSIDERED TO BE MARGINAL.

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8. TWO WEEKS BEFORE THE FIRST ROUND, THERE IS A GENERAL ASSUMPTION, CONFIRMED BY THE LATEST OPINION POLLS, THAT A SOCIALIST MAJORITY IS INEVITABLE, EVEN IF THAT DOES NOT MEAN THAT FRENCH PUBLIC OPINION HAS SWUNG DRAMATICALLY TO THE LEFT. MITTERRAND IS INDEED, PARADOXICALLY, THE BENEFICIARY OF CAUTION AND CONSERVATISM. THE URC HAS BEEN FORMED BY THE RIGHT IN AN ATTEMPT TO LIMIT THE DAMAGE, BUT THERE WILL HAVE TO BE A SHARP CHANGE OF PUBLIC MOOD IF THEY ARE TO AVOID A HEAVY DEFEAT.

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ASSESSMENTS STAFF,
CABINET OFFICE

MR P WESTON, CABINET OFFICE

NNNN



FROM: A C S ALLAN

DATE: 23 May 1988

NOTE FOR THE RECORD

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lankester
Mr H P Evans
Mr Peretz

BILATERAL WITH BEREGOVVOY

The Chancellor had a short bilateral with Beregovoy during the OECD Ministerial meeting in Paris on Wednesday, 18 May.

Freedom of capital movements

2. Beregovoy said he would like to scrap the remaining French exchange controls immediately. He would be discussing this with M.Rocard. The Chancellor said he very much welcomed this and hoped the French would be able to give this lead. It would be particularly helpful if action could be taken before ECOFIN on 6 June.

3. Beregovoy noted that another topic for ECOFIN would be the taxation of savings. The Chancellor said that this had been discussed at the informal ECOFIN the previous weekend. It had been agreed then that action on the taxation of savings should not be a pre-condition for freedom of capital movement. There had also been some discussion about countering tax evasion by better exchange of information. Beregovoy thought that there could not be too great distortions between taxation of savings in different countries. The Chancellor accepted this but thought that it was for each country to take its individual decisions. In a global market it was not sensible or practicable to try to set up a uniform system in the EC if there were differences elsewhere. But he agreed it the point should be looked at carefully. Beregovoy said this was an important issue for him.



French economy

4. The Chancellor asked what changes in French economic and financial policy should be expected following the Elections. Beregovoy said "None". The problem was ensuring continuity. There might perhaps be greater help to investment, and he would want to stop privatisation until 1992. But there would be no re-nationalisation, and he would be working to make sure that there was completely free competition between the privatised companies, something which was not true now. He would also be working to continue to increase competition in the financial markets. Finally, he thought interest rates were much too high, in France as in the UK.

European monetary integration

5. Beregovoy said he would want to make progress on this, but it would only be possible if sterling were to join the ERM. This would have a tremendous impact, and would enable the EC to make greater progress on other issues, including freedom of services. M. Mitterrand and M. Rocard would raise this with the Prime Minister.

6. The Chancellor said that the idea of a genuine European central bank was so far off that it was not worth taking a lot of time to discuss it now. But he would certainly want to see further progress on European convergence on monetary matters. There was much in common in the British and French positions on ways in which the EMS might be strengthened. On the position of sterling and the ERM, the British position was well known.

7. Beregovoy said that he fully accepted that no country would give up any of its sovereignty to a European central bank. What he had in mind was a "central bank of central banks". This could involve greater reserve pooling, and the establishment of the ecu as a reserve currency. The Chancellor fully supported this last point: he thought the ecu should be used both as a currency of intervention and as a reserve currency.



Sub-Saharan Africa

8. The Chancellor explained the background to his Sub-Saharan initiative. Several countries had agreed to this, though the main obstacle was the US. He intended to go on pressing it, and if France could support it, particularly at Toronto, that would be very helpful. Beregovoy said that he had spoken at the OECD about the need for "alleviation" and even "cancellation" of the debt of the very poorest; this had been in the Mitterrand programme. He thought it would be helpful if officials discussed this further. It was agreed that Sir G Littler and M. Trichet should take this forward.

Reform of international monetary system

9. The Chancellor said that when the G7 had discussed M. Balladur's proposals for the reform of the international monetary system it had been agreed that central bank Governors should look at this in the first instance. But little progress had been made and a push was needed. Beregovoy said that he thought reform of the international monetary system must remain on the agenda, and he agreed that central bank Governors were well placed to take this forward.

A handwritten signature in blue ink, consisting of the letters 'A', 'C', 'S', and 'A' in a stylized, cursive font. The signature is written in a single stroke with some overlapping.

A C S ALLAN

FROM: MISS M O'MARA

DATE: 24 MAY 1988

- AM*
1. SIR G LITTLE
 2. CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Lankester
 Mr Scholar
 Mr A J C Edwards
 Mr H P Evans
 Mr Peretz
 Mr Mountfield
 Mr Nelson
 Mr Cropper

CL
 I have drastically
 shortened - this is not
 a brief for the meeting,
 merely points for the agenda

*OK ✓
 June
 [Signature]*

AA

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: 10 JUNE

Mr Powell wrote to your office on 19 May enquiring whether there were any subjects in the financial or monetary area which might form the basis for an initiative to be taken by the Prime Minister and President Mitterrand at their meeting on 10 June.

2. We have given some thought to the issues which the Prime Minister might mention. The debt initiative is one such possibility and although President Mitterrand may well not respond positively, it would at least be worth putting the French on warning that we intend to raise this subject at the economic summit. We have not identified any other suitable candidates.

3. Mr Powell suggested that the two Heads of Government might make a joint statement on the development of the private ecu. The difficulty is that if the Prime Minister were to initiate any discussion in this area, President Mitterrand would be sure to broaden it to cover such subjects as the introduction of a common European currency or the establishment of a European Central Bank (discussed in M Balladur's paper to fellow Finance Ministers), let alone sterling's participation in the ERM. This is likely to be highly counter-productive.

4. As you know, we have been seeking to keep detailed consideration of these issues off the agenda for Hanover but the German Presidency will be keen to include them in some form and the French may well press there for some commitment to greater European monetary co-operation. The Prime Minister is bound to react adversely and we see no advantage in provoking a prior confrontation with President Mitterrand a deux in a meeting which, as Mr Powell has indicated to the Foreign Office, is poised to mark a step forward in Anglo-French relations.

5. However, President Mitterrand might well raise some of these subjects on his own initiative. If so, the Prime Minister might reply that the UK does not think it sensible to devote resources at this stage to a study of some of the more futuristic proposals currently being mooted as a means to achieving European economic and monetary union. Our priority must be to secure swift adoption of the capital liberalisation directive. Nevertheless, some more technical issues are also being aired on which early progress could be made, including some which focus on the development of the ecu. The Prime Minister understands that ECOFIN will be returning to the subject of European monetary integration at its meeting on 6 June and the Chancellor will be playing a full part in this discussion.

6. If you agree, your office might like to reply to No 10 along the lines of the attached draft. Mr Powell is clearly eager to discover the nature of the UK's own proposals and if the Prime Minister needs to refer to them at her meeting, in however general terms, I think we must give her some indication of what they are. The draft therefore describes them briefly but stresses there is no need for her to spell them out to President Mitterrand.

MOM

MISS M O'MARA

DRAFT PRIVATE SECRETARY LETTER TO:

C D Powell Esq
10 Downing Street

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

Thank you for your letter of 19 May, ^{asking} [enquiring] whether there were any issues in the financial or monetary area which ^{might} [will] form the basis for an initiative to be taken at the Prime Minister's meeting with President Mitterrand.

It would be well worth

The Prime Minister ~~[will wish to]~~ ^{ing} seek the President's support for interest ^{subsidies} ~~rate or equivalent relief~~ on the Paris Club ~~debts~~ ^(non-aid) to Sub-Saharan African countries, on the lines of the initiative put forward by the Chancellor a year ago.

on the official *old aid loans, with which we should agree; but* *complete write off of*
The President seems committed to the ~~reduction of interest rates on old aid loans;~~ it is not absolutely clear whether

he is prepared to do ~~the same~~ for commercial (ECGD-type) loans, ^{which is the key issue on which we seek French support.} although we think the French position is changing.

In any case, the Prime Minister could give warning that the UK intends to ^{press} ~~raise~~ this subject at Toronto. We shall *supply a full brief for the meeting.*

You asked
[We have also given some thought as to] whether the Prime Minister and the President might make a joint statement on the development of the ~~private~~ ecu, ^{as mentioned in your letter, but} ~~doubt if that would be a suitable candidate.~~

But it may not be worth raising this

The French have floated a number of ideas relating to European economic and monetary union including, in the short term, a timetable for all EC currencies to join the

Clearly, we would like to see no ECU developed, not even as a European reserve currency & currency of intervention. This would intensify our own problems. We have taken over no attempt

~~G. Gorman VITO on our purchase of J. M. G. S.~~

ERM and, in the longer term, the development of a single currency area and the possible creation of a European Central Bank. There must be a risk that if the Prime Minister were to raise a subject like the role of the ecu, President Mitterrand would seek to broaden the discussion to cover these other proposals. [That would merely risk provoking sterile debate and could sour the atmosphere of what you yourself have suggested should otherwise be a constructive meeting.]

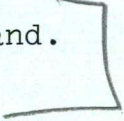
He may, of course, raise these

[Nevertheless, President Mitterrand could well raise the subject of closer European monetary integration] on his own initiative, [If he does so, the Prime Minister might reply that the UK sees little value in devoting time and resources to the study of some of the more futuristic proposals which have been mooted over recent months and that we should give priority to the immediate task of removing all remaining exchange controls in the Community. But there are other more technical ideas on which early progress could be made, including some proposals of our own relating to the role of the private ecu. She understands that ECOFIN will be returning to the subject of European monetary integration at its meeting on 6 June and she expects the Chancellor to play a full part in the discussion.]

[The Prime Minister might like to be aware that our proposals consist of encouraging Member States to maintain greater holdings of private ecus in their official foreign currency reserves and to make greater use of the ecu as an

and we shall be supplying a brief for the meeting.

intervention currency and of encouraging those individual Member States who need to borrow in foreign currency to supplement their reserves to denominate a greater proportion of their borrowing in ecus, as well as urging similar action in relation to Community borrowing and borrowing by the European Investment Bank. We also support proposals from the French and others for the removal of obstacles which deter Member States from holding other Community currencies in their reserves. However, we do not suggest the Prime Minister discusses any of this detail with President Mitterrand.



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FROM: P D P BARNES
DATE: 25 May 1988

PPS

Ch.

'X' is indeed a possibility - tho' at present the French are focusing on tax agreements (e.g. withholding tax) as a quid pro quo for capital liberalization. I understand that they made unhelpful remarks in this vein at today's high level group.

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lankester
Mr Scholar
Mr A J C Edwards
Mr H P Evans
Mrs Lomax
Mr Peretz

BILATERAL WITH BEREGOVOY

2. You asked whether the proposed Commission/Council declaration on ERM etc. could be agreed by qualified majority. FCO lawyers advise that it can only be agreed by 'consensus' i.e. effectively unanimity. (Good!)

The Economic Secretary has seen your note for the record of 23 May.

Thank 25/5

2. The Economic Secretary interprets Mr Beregovoy's remarks recorded in your paragraph 5 as a veiled threat that the French would not complete those parts of the Single Internal Market concerning financial services unless the UK joined the ERM. The Economic Secretary notes that the Germans made similar remarks to him at Lake Como.

X

Beregovoy has stated that the UK is not a member of the ERM. He has said that it is a precondition of the UK joining the ERM that the UK must be a member of the ERM. He has said that it is a precondition of the UK joining the ERM that the UK must be a member of the ERM.

P D P BARNES
Private Secretary

cc Economic Secretary
 Sir G Littler
 Sir P Middleton
 Sir T Burns
 Mr Lankester
 Mr Scholar
 Mr A J C Edwards
 Mr H P Evans
 Mr Peretz
 Mr Mountfield
 Miss O'Mara
 Mr Nelson
 Mr Cropper



Treasury Chambers, Parliament Street, SW1P 3
 01-270 3000

26 May 1988

C D Powell Esq
 10 Downing Street
 LONDON SW1

Dear Charles,

Thank you for your letter of 19 May, asking whether there were any issues in the financial or monetary area which might form the basis for an initiative to be taken at the Prime Minister's meeting with President Mitterrand.

It would be well worth the Prime Minister seeking the President's support for interest subsidies on the official (non-aid) debts of the poorest Sub-Saharan African countries, on the lines of the initiative put forward by the Chancellor a year ago. The President seems committed to the complete writing-off of old aid loans, something which itself is part of the Chancellor's initiative for these countries, providing they pursue appropriate domestic policies; but it is not absolutely clear what he is prepared to do for commercial (ECGD-type) loans, which is the key issue on which we seek French support. In any case, the Prime Minister could give warning that the UK intends to press this subject at Toronto. We shall supply a full brief for the meeting.

You asked whether the Prime Minister and the President might make a joint statement on the development of the ecu. Certainly, we would like to see the ecu developed, inter alia as a European reserve currency and currency of intervention. This would effectively get round the problems we faced recently over the attempted German veto on our purchases of deutschmarks. But it may not be wise to raise this. The French have floated a number of ideas relating to European economic and monetary union including, in the short-term, a timetable for all EC currencies to join the ERM and, in the longer-term, the development of a single currency area and the possible creation of a European central bank. There must be a risk that if the Prime Minister were to raise a subject like the role of the ecu, President Mitterrand would seek to broaden the discussion to cover these other proposals. He may, of course, raise them anyway on his own initiative, and we shall be supplying a brief for the meeting.

*Yours
 Alex*

A C S ALLAN
 Principal Private Secretary



CH/EXCHEQUER	
REC.	01 JUN 1988
ACTION	Mr H.P. EVANS
COPIES TO	EST Sir G. LITTLER, Mr LANKESTER, Mr A.J.C. EDWARDS, Mr PERETZ, Mr MOUNTFIELD

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1988

Dear Charles,

Possible Visit by Former President Giscard D'Estaing

In your letter of 2 May you said it would be difficult for the Prime Minister to see M. Giscard d'Estaing before the Hanover European Council.

Now that further elections have been called in France our Embassy in Paris have discussed with M. Giscard d'Estaing's cabinet the difficulties involved in a visit during the election campaign. Left to himself, Giscard would, not surprisingly, have come to London before the elections. But his office accepted that this was not a practical possibility. M. Giscard d'Estaing's people have said that he will still hope to call on the Prime Minister before Hanover to discuss economic and monetary issues.

Clearly, the Prime Minister's programme between 12 June and Hanover will be very busy and Giscard's office have been told so. I suggest we take stock after 12 June, not least in the light of the election results themselves.

You may be interested in the enclosed telegram from Paris, paragraph 4 of which suggests that Giscard hopes to establish himself as leader of the Opposition. The Independent had an article on the same theme this week (copy enclosed).

I am copying this letter to Alex Allan in the Treasury.

1
 covered,
 L Parker

(L Parker)
Private Secretary

C D Powell Esq
 PS/No 10 Downing Street

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MY TELNO 481: FRENCH PARLIAMENTARY ELECTIONS.

SUMMARY

1. AT THE START OF THE OFFICIAL CAMPAIGN, THE SOCIALISTS (PS) ARE SO CONFIDENT THAT THEY ARE OFFERING NOT TO CONTEST SOME SEATS WHERE NON-SOCIALISTS ARE STANDING WHO ARE SYMPATHETIC TO MITTERRAND. THE UDF AND RPR HAVE CLOSED RANKS AND FORMED THE URC TO FIGHT THE ELECTIONS ON THE BASIS OF NO DEALS WITH THE PS AND NONE WITH THE FRONT NATIONAL (FN). GISCARD IS THE MOVING FORCE BEHIND URC BUT IT DOES NOT FOLLOW THAT HE WILL BE THE LEADER OF THE OPPOSITION ONCE THE ELECTIONS ARE OVER. LE PEN HAS REACTED ANGRILY TO THE URC'S EXCLUSION OF DEALS WITH THE FN AND IS THREATENING WRECKING TACTICS. BOTH THE FN AND THE COMMUNIST PARTY (PCF) WILL LOSE A LOT OF SEATS. TWO WEEKS BEFORE THE FIRST ROUND A CONVINCING PS VICTORY SEEMS INEVITABLE.

DETAIL

2. THE PARLIAMENTARY ELECTION CAMPAIGN BEGINS OFFICIALLY THIS WEEKEND. THE SOCIALISTS ARE IN CONFIDENT MOOD, BUOYED UP BY POLLS WHICH PUT THEIR SUPPORT AT OVER 40 PER CENT (THEIR BEST LEVEL EVER), AND WHICH PROMISE THEM AN OUTRIGHT MAJORITY IN THE ASSEMBLY. SO SURE ARE THEY OF VICTORY THAT THEY HAVE OFFERED NOT TO CONTEST 40-50 SEATS WHERE NON-SOCIALISTS STAND WHO ARE WILLING BOTH TO ENDORSE MITTERRAND AND DENOUNCE LE PEN. THE OFFER IS AIMED PARTICULARLY AT THE CENTRIST CDS WHOM MITTERRAND HOPES EVENTUALLY TO ENTICE INTO GOVERNMENT. THE LATTER HAVE SPURNED THE PROPOSAL, ALTHOUGH THERE ARE SIGNS THAT ONE OR TWO CDS CANDIDATES WILL BREAK PARTY RANKS AND ACCEPT THE PS' OFFER.

3. DEMORALISED AFTER CHIRAC'S DEFEAT, THE PARTIES OF THE TRADITIONAL RIGHT HAVE CLOSED RANKS. URGED ON BY GISCARD, THE UDF AND RPR HAVE FORMED AN UMBRELLA ORGANISATION TO FIGHT THE ELECTIONS CALLED QUOTE UNION DU RASSEMBLEMENT ET DU CENTRE UNQUOTE (URC) WHICH WILL PUT FORWARD A JOINT CANDIDATE IN EACH CONSTITUENCY. THE BASIS OF THE ARRANGEMENT IS A PROMISE BY THE CENTRISTS TO RESIST MITTERRAND'S

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BLANDISHMENTS, AND BY THE RPR TO RESIST LE PEN'S.

4. GISCARD HOPES THAT HE WILL NOW BE ABLE TO ESTABLISH HIMSELF AS LEADER OF THE OPPOSITION. IN THE SHORT TERM HE MAY SUCCEED: CHIRAC'S AUTHORITY IS DIMINISHED BY DEFEAT AND BARRE PREFERS TO BE A POINT OF REFERENCE RATHER THAN A PARTY LEADER. (BARRE HAS IRRITATED THE RIGHT IN RECENT DAYS BY REPEATING HIS WELL-KNOWN VIEW THAT A DISSOLUTION SHOULD FOLLOW A PRESIDENTIAL ELECTION, THAT MITTERRAND WAS THEREFORE SENSIBLE TO DISSOLVE AND THAT HE COULD EXPECT TO SECURE A WORKING MAJORITY: BOTH ASSERTIONS MAY BE TRUE BUT NEITHER IS WELCOME TO THE MEMBERS OF URC AT THE START OF AN ELECTION CAMPAIGN.) GISCARD'S CHANCES, HOWEVER, OF RETAINING THE LEADERSHIP OF THE RIGHT AFTER THE ELECTIONS ARE MUCH MORE DOUBTFUL. THE CDS STILL HOPES THAT IT WILL BE POSSIBLE EVENTUALLY TO CONSTRUCT AN AUTONOMOUS CENTRE GROUPING, WHICH COULD IN DUE COURSE SWITCH ALLEGIANCES AND WORK WITH THE PS. AND AMONG OTHER URC PARTICIPANTS IT IS HARD TO SEE CHIRAC OR LEOTARD ACCEPTING GISCARD'S TUTELAGE FOR LONG.

5. LE PEN, WHO PROPOSED A UNITED FRONT OF THE UDF, RPR AND FN FOR THE ELECTIONS, REACTED ANGRILY TO THE URC DECISION TO REJECT ALL DEALS WITH HIM. HE HAS SAID THAT HE WILL MAINTAIN FN CANDIDATES IN THE SECOND ROUND RUN-OFF ON 12 JUNE, EVEN WHERE THIS IS LIKELY TO LEAD TO THE RIGHT'S DEFEAT AND THE ELECTION OF A PS DEPUTY. IF HE MAKES GOOD HIS THREAT (AND CANDIDATES MUST SCORE 12.5 PER CENT IN THE FIRST ROUND TO BE ELIGIBLE FOR THE SECOND), THIS COULD COST THE URC A SIGNIFICANT NUMBER OF SEATS TO THE BENEFIT OF THE PS. HIS HOSTILITY IS LIKELY TO BE MOST DAMAGING LATER ON IN DEPARTMENTAL AND COMMUNAL ELECTIONS AND THAT THREAT SHOULD NOT BE UNDERESTIMATED.

6. THE REINTRODUCTION OF MAJORITY VOTING OVER TWO ROUNDS MEANS THAT THE FN WILL HAVE A STRUGGLE TO HOLD ON TO ANY OF THE 35 SEATS IT WON IN MARCH 1986 UNDER THE SYSTEM OF PROPORTIONAL REPRESENTATION. BUT THERE ARE SOME AREAS WHERE IT IS IN WITH A CHANCE. MARSEILLES, WHERE LE PEN SCORED NEARLY 30 PER CENT IN THE FIRST ROUND OF THE PRESIDENTIAL ELECTIONS, IS ONE OF THEM, WHICH IS WHY LE PEN HAS DECIDED TO CONTEST A MARSEILLAISE CONSTITUENCY NEXT MONTH. IF HE DOES WELL, HE WILL BE ENCOURAGED TO STAND FOR MAYOR OF MARSEILLES AT NEXT YEAR'S MUNICIPAL ELECTIONS.

7. THE COMMUNIST PARTY CAN ALSO EXPECT TO LOSE MANY OF ITS SEATS, ALMOST CERTAINLY FAILING, FOR THE FIRST TIME SINCE THE WAR, TO SECURE THE 30 SEATS NEEDED FOR OFFICIAL GROUP STATUS IN THE ASSEMBLY. EVEN MARCHAIS' SEAT IS NOW CONSIDERED TO BE MARGINAL.

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MR P WESTON, CABINET OFFICE

NNNN

Giscard back from oblivion with European ambitions

THE turmoil which has engulfed the French right since François Mitterrand's overwhelming victory in the presidential elections has brought a half-forgotten figure to the fore again: the former president, Valéry Giscard d'Estaing.

Seven years after his defeat by Mr Mitterrand, Mr Giscard d'Estaing is building a second political career. He is careful not to talk too openly about his ambitions. But since the presidential election he has made a strong bid to become leader of the right-wing opposition, evidently with an eye to standing for president again next time. He is also believed to be dreaming of becoming the first directly-elected president of the European Community.

Seven years ago Mr Giscard d'Estaing was heartily disliked by large sections of the population. They saw a haughty and monarchical leader who spoke of himself in the third person singular and who regarded his defeat as little short of regicide. But he quickly recovered, announced that "one must cast bitterness aside" and humbly started again from the bottom of the political ladder. He was elected a member of the district council of Puy de Dôme, then as a deputy to the National Assembly.

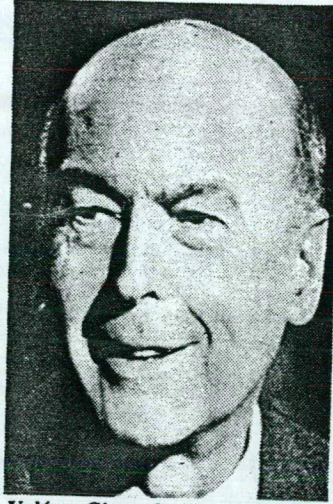
This year he was made chairman of the Assembly's foreign relations committee, a post where

From Patricia Clough in Paris

he could display his undoubted talents and expertise. By then the odium which had surrounded him was dissipating, as the public began to respect his courage and tenacity. His popularity increased when, seven weeks before the presidential elections, he published a book, *Power and Life*, about his experiences as president. It was not his memoirs — he clearly thinks it is far too soon for that — but more akin to a novel. Excellently written and widely praised as a literary success, it put him back in the news and removed the impression of arrogance.

He enhanced his stature by going on television to renounce candidacy in the presidential race in favour of the two other right-wing contenders, Raymond Barre and Jacques Chirac. That he had no chance of winning seemed less important than that he had learnt his lesson and was behaving with modesty and dignity.

The disastrous defeat of Mr Chirac in the second round gave Mr Giscard d'Estaing a rare opportunity. He immediately assumed the role of spokesman for the stunned and disorientated right, appearing on television, calmly accepting the situation and announcing: "We are in opposition. We will practise for the first



Valéry Giscard d'Estaing: first elected President of EC?

time in our history a constructive opposition, without betraying or denying our principles."

He was a prime instigator of the URC — an alliance of the centrist UDF and the Gaullist RPR to avert splitting the right-wing vote in the parliamentary elections. His strategy was, and is, to keep the right united, to prevent the centre from breaking off to join a government, and the right-wingers from flirting with Jean-Marie Le Pen, the National Front leader.

As the most senior right-wing leader with a seat in the National

Assembly (Mr Chirac, Mr Barre and other former ministers had to give up theirs to join the Cabinet) he was in a perfect position to take over the leadership of the parliamentary opposition. He tried hard, but in vain, to prevent the newly re-elected Mr Mitterrand from calling the snap legislative elections which may recover for the Socialists the majority they lost in 1986.

Mr Giscard d'Estaing's chances of success are as uncertain as the whole of the future of the right after the elections. Asked who they would like to see as leader of the opposition, 15 per cent of the 805 people questioned in a *Paris Match* poll last week chose Mr Giscard d'Estaing, compared with 35 per cent for Mr Chirac, 29 per cent for Mr Barre and 8 per cent for Mr Le Pen. But another poll in the weekly *Le Point* had Mr Giscard d'Estaing ahead of Mr Chirac, and not far behind Mr Barre as someone the public wanted to see playing an important role in the elections.

Many doubt whether Mr Giscard d'Estaing's attempt to return to the top of French politics is an end in itself. Last year he proposed that there should be a president of the EC, directly elected. As a European statesman, it seems to be the job he would like. If it were created, he would need a strong national power-base to acquire it.

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AND ISLANDS	PSIE R2	(D4 A9)
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EAS. POL. ALY	PSG A11	
INTEL. OPS	PSG D3	DIPSA A6
INTEL. POL	PSG D3	DIPSA A6
UNION SIDE	PSG D3	DIPSA A6
1196	PSG D3	DIPSA A6



FROM: A C S ALLAN

DATE: 26 May 1988

BF
7/6-

MISS O'MARA

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lankester
Mr Scholar
Mr A J C Edwards
Mr H P Evans
Mr Peretz
Mr Mountfield
Mr Nelson
Mr Cropper

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: 10 JUNE

The Chancellor was grateful for your minute of 24 May. As you will have seen, he felt that the letter to No.10 should be cut down and that we should prepare separate briefs for the meeting.

2. I should be grateful if you could prepare a brief on French ideas on European monetary co-operation, including those ideas we ourselves support; and if Mr Evans could prepare a brief on the Chancellor's Sub-Saharan initiative.

A handwritten signature in black ink that reads 'ACSA' with a long horizontal stroke underneath.

A C S ALLAN

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TO DESKBY 271200Z FCO

TELNO 520

OF 271031Z MAY 88

AND TO IMMEDIATE MANILA

INFO PRIORITY EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO

INFO SAVING HM CGS IN FRANCE

MY TELNO 501: FRENCH PARLIAMENTARY ELECTIONS.

SUMMARY

1. THE CAMPAIGN HAS YET TO SPARK PUBLIC INTEREST. URC LEADERS ARE PLAYING UP THE RISK THAT A SOCIALIST (PS) MAJORITY MEANS A RETURN TO FULL-BLOODED SOCIALISM. THE ELECTORATE IS SO FAR MORE DISPOSED TO BELIEVE IN MITTERRAND'S COMMITMENT TO QUOTE OUVERTURE UNQUOTE. THE ROCARD GOVERNMENT IS PUTTING THE EMPHASIS ON MODERATION, CONTINUITY AND SOCIAL SOLIDARITY. MITTERRAND MAY BE CONCERNED THAT A LARGE PS VICTORY COULD MAKE PARTY DISCIPLINE, AND QUOTE OUVERTURE UNQUOTE, DIFFICULT. HE WILL ATTEMPT AN OPENING TO THE CENTRE AGAIN, BUT IT MAY TAKE TIME TO ARRANGE.

DETAIL

2. THE CAMPAIGN HAS YET TO ACQUIRE MOMENTUM. THE ELECTORATE, WEARIED BY THE PRESIDENTIAL BATTLE, CAN FIND LITTLE ENTHUSIASM FOR A FURTHER ROUND OF POLITICAL HOSTILITIES, PARTICULARLY SINCE A SOCIALIST VICTORY IS WIDELY REGARDED AS A FOREGONE CONCLUSION. IN THE LAST FEW DAYS PUBLIC AND PRESS ATTENTION HAS FOCUSED MORE ON THE PROBLEMS OF NEW CALEDONIA (MY TELNO 513 - NOT TO ALL) THAN ON POLITICAL DEBATE.

3. THE LEADERSHIP OF THE UNION DE RASSEMBLEMENT ET DU CENTRE (URC), THE UMBRELLA FOR THE RIGHT, IS TRYING TO AWAKEN INTEREST, ALARMED BY THE DEFEATISM WITHIN UDF AND RPR RANKS, AND BY OPINION POLLS SUGGESTING THAT THE PS AND ITS ALLIES COULD WIN BETWEEN 350-450 OF THE 577 SEATS IN THE ASSEMBLY. THEY ARGUE THAT MITTERRAND IS NOT GENUINELY INTERESTED IN AN OPENING TO THE CENTRE (QUOTE OUVERTURE UNQUOTE), AND THAT IF THE PARLIAMENTARY ELECTIONS GIVE HIM A LARGE MAJORITY IN THE ASSEMBLY, FRANCE RISKS ANOTHER PERIOD OF SECTARIAN SOCIALIST GOVERNMENT LIKE THAT OF 1981-83.

4. THERE IS NO SIGN YET THAT THE VOTERS ARE PERSUADED BY THIS ANALYSIS. THEY HAVE NOTED THE DISARRAY ON THE RIGHT AND SEEM MORE INCLINED TO ACCEPT THE ARGUMENT THAT THE PRESIDENT NEEDS A

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PARLIAMENTARY MAJORITY IF HE IS TO GOVERN EFFECTIVELY. MITTERRAND CONTINUES TO SAY THAT HE WANTS A BROAD-BASED GOVERNMENT AND THAT HE WILL ATTEMPT QUOTE OUVERTURE UNQUOTE AGAIN ONCE THE ELECTIONS ARE OVER.

5. ROCARD'S STYLE REINFORCES THE MESSAGE OF OPENNESS AND MODERATION. HE HAS SENT INSTRUCTIONS TO HIS MINISTERS (PUBLISHED IN THE OFFICIAL GOVERNMENT JOURNAL) EMPHASISING THE NEED TO GOVERN ON THE BASIS OF CONSENSUS, TO BE OPEN TO SUGGESTIONS FROM ALL QUARTERS, TO BE AS READY TO LISTEN AS TO ACT, TO EXPLAIN THEMSELVES FULLY, AND TO BE SCRUPULOUS IN OBSERVING ALL CONSTITUTIONAL PROPRIETIES. IN HIS VIEW THEIR CONDUCT CAN BE AS MUCH THE SIGNAL OF QUOTE OUVERTURE UNQUOTE AS ANY AGREEMENTS THAT THE PS MAY BE ABLE TO STRIKE WITH OTHER POLITICAL FORMATIONS.

6. THE FIRST ACTIONS OF HIS GOVERNMENT HAVE BEEN DESIGNED TO EMPHASISE CONTINUITY RATHER THAN TO INDICATE SOME SHARP CHANGE TO A SOCIALIST COURSE (THE PATTERN THE MAUROY GOVERNMENT FOLLOWED IN 1981). BEREGOVY HAS ANNOUNCED THAT HE IS BROADLY IN AGREEMENT WITH THE LAST GOVERNMENT'S ECONOMIC ANALYSES AND POLICIES: INFLATION AND THE BUDGET DEFICIT MUST BE REDUCED WHILE WAGES ARE HELD IN CHECK. IN SOCIAL POLICY TOO THERE IS TO BE AS MUCH CONTINUITY AS CHANGE, ALTHOUGH ROCARD IS DETERMINED TO GIVE SOCIAL ISSUES A HIGHER PROFILE AND A HIGHER PRIORITY THAN HIS PREDECESSOR. HIS DECISION TO PRESS AHEAD AS SOON AS POSSIBLE WITH THE INTRODUCTION OF A MINIMUM GUARANTEED INCOME (PROMISED BY MITTERRAND DURING THE PRESIDENTIAL ELECTION CAMPAIGN) IS SYMBOLIC OF THIS COMMITMENT. (A FULL ANALYSIS OF ROACRD'S SOCIAL POLICIES FOLLOWS SEPARATELY BY BAG.)

7. MITTERRAND MAY BE PRIVATELY CONCERNED BY THE LIKELIHOOD OF A SWEEPING SOCIALIST VICTORY AND A DOMINANT BLOC OF PS DEPUTIES THAT COULD MAKE THE PS HARD TO MANAGE IN THE NEXT ASSEMBLY, THOUGH THE COMPOSITION OF THE PS DOES NOT MEAN THAT MORE MEANS MORE LEFTWARD. A LANDSLIDE VICTORY WOULD ALSO RISK REDUCING CENTRIST REPRESENTATION TO INSIGNIFICANCE, LEAVING THE PS NO POTENTIAL PARTNER WITH WHOM TO ATTEMPT QUOTE OUVERTURE UNQUOTE. THERE ARE SUGGESTIONS THAT MITTERRAND HOPES THAT THERE WILL BE ENOUGH LEFT RADICALS (MRG) CENTRISTS (CDS) AND RIGHT RADICALS (VALOISIENS) TO FORM AN OFFICIAL PARLIAMENTARY GROUP IN THE NEW ASSEMBLY. BUT EVEN IF THERE ARE (AND A MINIMUM OF 30 DEPUTIES IS NEEDED TO COMPOSE SUCH A GROUP), ITS FORMATION MAY TAKE TIME TO ARRANGE, AND ITS POTENTIAL COMPONENTS MAY ANYWAY BE WARY OF COMMITTING THEMSELVES TO NEW ALLIANCES UNTIL THIS AUTUMN'S DEPARTMENTAL ELECTIONS, AND NEXT SPRING'S MUNICIPALS, ARE OVER. AT PRESENT THEREFORE IT LOOKS AS THOUGH MITTERRAND'S NEXT

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ATTEMPT AT QUOTE OUVERTURE UNQUOTE MAY HAVE TO BE BY SMALL STEPS AND
OVER A PROTRACTED PERIOD.

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MR P J WESTON CAB OFF

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CH/EXCHEQUER	
REC.	27 MAY 1988
ACTION	Mr H.P. EVANS
COPIES TO	EST Sir G. LITTLER Mr LANKESTER Mr A.J.C. EDWARDS Mr PERETZ Mr MOUNTFIELD

✓ 27/5

From the Private Secretary

27 April 1988
MAY

(Handwritten notes and signatures)
 (I seem to recall...)
 (S.G.L...)

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

Thank you for your letter of 25 May about the Prime Minister's meeting with President Mitterrand on 10 June and the possibility of using it to take an initiative in Anglo-French relations.

I think that the subjects mentioned in your letter all need to figure in the briefing for the meeting. But the Prime Minister's instinct is that it would be wrong to aim for any specific initiative in the closing stages of the legislative election campaign. She would not, therefore, on this occasion want us to propose in advance to the French a joint statement on defence or any other specific issue. But this need not of course inhibit discussion of the scope for a future initiative on defence; and the Prime Minister will certainly want to press for French support for the Chancellor's debt initiative.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (H.M. Treasury) - with a copy of yours - and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

cck



Foreign and Commonwealth Office

London SW1A 2AH

25 May 1988

Dear Charles,

Prime Minister's meeting with President Mitterrand

Thank you for your letter of 18 May ^{has} about the Prime Minister's meeting with President Mitterrand. We very much agree on the need to use this occasion to take a step forward in Anglo-French relations, although we shall have to be careful not to appear to pre-judge the outcome of the legislative elections two days later.

Your letter covers the main areas where some kind of joint initiative might be possible. We agree with your comments on Community issues: while some joint statement of our commitment to action on the single market may possibly be worth considering (with DTI) we would not - subject to DTI's views - see scope for any particular initiative in this field on 10 June. Nor do we think that this is the moment for initiatives on Arab/Israel. But we shall probably want to recommend that the Prime Minister use this meeting to seek French support for the Chancellor's debt initiative. We know that the new French Government is re-examining its position on African debt (though it may have a different initiative in mind). We shall cover this in our briefing, in conjunction with the Treasury, and are meanwhile taking soundings in Paris.

In the bilateral field, the Prince and Princess of Wales are to visit France in November, but firm dates and an outline programme can probably be agreed with the French government only after the elections, and hence too late for any announcements on 10 June. We agree with you that there is no scope to announce more regular consultation at the level of President and Prime Minister.

X

That leaves defence. We agree with your suggestion that the Prime Minister and President Mitterrand should agree a statement on the importance of taking further in practical ways defence cooperation between Britain and France in the context of strengthening the collective defence of Europe. Our Embassy in Paris have been told that the ideas in the Prime Minister's earlier letter were remitted for study to the President's military adviser, General Fleury. The Elysée have not offered a substantive reaction, and the new Government have not yet had time to study this in detail. Our conclusion is that a general statement on the lines above is probably the most that we can expect at this stage. Given the electoral background in France, it might be wise to avoid "instructing Ministers".



Further contacts with the French and Americans on possible collaboration for a TASM are planned, and there will be a national feasibility study over the next 6-9 months with a view to a final decision in mid-1989. It would be premature in our view to start steering public opinion away from the idea of collaboration with the French, not least because there could be technical and political uncertainties in the US programme. If the subject is discussed, we recommend that the Prime Minister maintain an open position.

The Prime Minister might also wish briefly to mention conventional defence equipment cooperation in her talks with President Mitterrand. The recent Anglo/French reciprocal procurement initiative is unique within the Alliance. It is not something we wish to draw public attention to (mainly for EC reasons). But we are working separately, eg in the IEPG, for a more open defence equipment market among the Allies.

Arms control probably does not offer scope for a separate joint initiative on 10 June, but we hope the Prime Minister might seek to maximise the common ground on nuclear issues. President Mitterrand's attitude to France's theatre nuclear modernisation was at best ambivalent during the Presidential election campaign. By extension, French resistance to SNF negotiations cannot perhaps be taken for granted in future. The political danger of appearing to sanction progress towards the denuclearisation of Europe is, however, something that President Mitterrand should be alive to.

On conventional arms control, it would be helpful if the Prime Minister could emphasise the importance of early agreement on a Western negotiating position within the Alliance, and specifically the merit of proposing equal ceilings on specified conventional force categories in the Atlantic/Urals zone. The French position hitherto has been to reject proposals that would imply that France is a full member of a military bloc. The political bonus of the full Atlantic/Urals area now offered by Gorbachev (which to some extent derives from a French proposal) should not be thrown away, and we need to ensure that militarily there is no scope for circumvention, as would be the case if zonal arrangements did not cover the whole of European Russia.

We shall, nearer the time, supply full briefing on all these topics, including a draft statement on defence.

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I am copying this letter to Brian Hawtin (MOD) and to Trevor Woolley (Cabinet Office).

Yours ever, *L Parker*

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

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Ch.

I spoke to 262 about this 'French initiative', and also about the French/German economic meeting.

2. On the former, although he had seen the telegram he had nothing to add at this stage. On the latter, he had made some (not v. productive) enquiries of Trichet — he got the impression that the French + Germans might be cooking up some rather unhelpful stuff on withholding taxes etc.

3. He would phone both these points further with Trichet + Tietmeyer over the next few days in Canada, + report any further intelligence.

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TORONTO ECONOMIC SUMMIT: FRENCH DEBT INITIATIVE.

SUMMARY

1. TRESOR CONFIRM THAT A FRENCH DEBT INITIATIVE WILL BE ANNOUNCED AT OR BEFORE TORONTO. DETAILS NOT YET DECIDED, BUT LIKELY TO BE COMPATIBLE WITH CHANCELLOR'S SUB-SAHARAN AFRICA INITIATIVE. PARTNERS TO BE CONSULTED IN ADVANCE.

DETAIL

2. SAMUEL-LAJEUNESSE (TRESOR) CONFIRMED TODAY THAT THE TRESOR ARE WORKING ON A FRENCH INITIATIVE TO RELIEVE THE DEBT OF QUOTE THE POOREST AND MOST INDEBTED COUNTRIES, ESPECIALLY IN AFRICA UNQUOTE. THE DETAILS HAD NOT YET BEEN SETTLED BUT THE INITIATIVE WAS LIKELY TO COVER THE CANCELLATION OF SOME AID DEBTS AND REDUCTION OF INTEREST RATES ON OTHER DEBTS. IT WOULD THUS BE CONSISTENT WITH THE CHANCELLOR'S SUB-SAHARAN AFRICAN INITIATIVE, COVERING ITS FIRST (CONVERSION OF AID LOANS TO GRANTS) AND THIRD (INTEREST RELIEF ON RESCHEDULED PARIS CLUB DEBT) VOLETS. THE FRENCH WOULD WANT TO SOUND OUT CERTAIN PARTNERS, INCLUDING US, BEFORE THE INITIATIVE WAS ANNOUNCED, BUT IT WAS NOT YET CLEAR WHETHER THEY WOULD BE IN A POSITION TO DO SO AT THIS WEEK'S FINAL SHERPAS MEETING.

3. WE WELCOMED THE PROSPECT OF PRIOR CONSULTATION ON THE FRENCH INITIATIVE AND STRESSED THE IMPORTANCE OF COMPATIBILITY WITH THE CHANCELLOR'S IDEAS.

4. SAMUEL-LAJEUNESSE SAID HE WOULD BE ATTENDING THE AFRICAN DEVELOPMENT BANK MEETING IN ABIDJAN THIS WEEK, AT WHICH THE CURRENT FRENCH IDEAS MIGHT BE DISCUSSED FURTHER.

5. FCO PLEASE ADVANCE TO BRAITHWAITE, RICHARDSON (ERD), LITTLER, MOUNTFIELD (TREASURY).

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TO IMMEDIATE ABIDJAN

TELNO 171

OF 311200Z MAY 88

INFO ROUTINE PARIS, WASHINGTON, TOKYO, BONN, ROME, OTTAWA

FOR BUIST AT ADB

PARIS TELNO 534 TO FCO: ECONOMIC SUMMIT: FRENCH DEBT INITIATIVE

1. TUR REPORTS FRENCH INTENTION TO LAUNCH THEIR OWN AFRICAN DEBT INITIATIVE, APPARENTLY SIMILAR TO THE CHANCELLOR'S, AND SAYS THAT LAJEUNESSE MAY DISCUSS FRENCH IDEAS FURTHER IN ABIDJAN.

2. AS YOU KNOW, THE VENICE SUMMIT COMMUNIQUE URGED A DECISION ON INITIATIVES ON AFRICAN DEBT BY THE END OF 1987. THE IMMINENCE OF THE TORONTO SUMMIT IS BRINGING THIS SUBJECT BACK INTO SHARPER FOCUS. YOU ARE AWARE OF THE DETAILS OF THE CHANCELLOR'S THREE-POINT INITIATIVE. THE CANADIANS HAVE PROPOSED A SCHEME TO ESTABLISH TWO GROUPS OF CREDITORS: THOSE PREPARED TO CHARGE LOWER THAN MARKET INTEREST RATES ON RESCHEDULED DEBT WOULD TAKE PRINCIPAL REPAYMENTS EARLIER THAN A GROUP WHICH STILL INSISTED ON CHARGING COMMERCIAL RATES. THE CHANCELLOR HAS NOT GIVEN HIS SUPPORT TO THIS SCHEME, PREFERRING HIS OWN, THOUGH KEEPING THE CANADIAN IDEA UNDER CONSIDERATION. THERE WAS A CONFUSED DISCUSSION OF THE OPTIONS FOR DEBT RELIEF AT THE OECD MINISTERIAL, LEADING TO LANGUAGE IN THE COMMUNIQUE WHICH, AS AT THE SPRING MEETINGS OF THE FUND AND BANK, KEPT OPEN CONSIDERATION OF INTEREST RATE CUTS ON RESCHEDULED DEBT. AT THE MINISTERIAL, AND AT SUBSEQUENT ANGLO-FRENCH DISCUSSIONS AT FOREIGN MINISTRY OFFICIAL LEVEL, THE FRENCH HINTED AT A NEW INITIATIVE. LAJEUNESSE'S REMARKS ARE THE FIRST DIRECT CONFIRMATION WE HAVE RECEIVED THAT THIS MIGHT INCLUDE AN ELEMENT OF INTEREST RATE RELIEF ON PARIS CLUB DEBT.

3. TO HELP US PREPARE FOR THE FINAL SHERPAS MEETING ON 3-5 JUNE IN TORONTO, IT WOULD BE MOST USEFUL IF YOU COULD SEEK FURTHER DETAILS OF FRENCH IDEAS FROM LAJEUNESSE. IN PARTICULAR, YOU MIGHT ASK WHICH COUNTRIES THE FRENCH ENVISAGE WILL BENEFIT: WHETHER THEY PROPOSE TO CUT INTEREST RATES ON DEBT OWED TO ECAS TO BELOW COMMERCIAL RATES, IE NOT JUST CUT THE SPREAD ABOVE LIBOR: HOW MUCH WILL THEY CUT THEM BY: WHAT COMPANY WOULD THEY REQUIRE BEFORE IMPLEMENTING THEIR SCHEME (IT SEEMS MOST UNLIKELY THAT THE

PAGE 1

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US WILL JOIN ANY SCHEME INVOLVING INTEREST RATE CUTS): AND WHETHER THEN ENVISAGE DISCUSSIONS WITH US AND OTHER SUMMIT COUNTRIES PRIOR TO TORONTO, EG AT THE FINAL SHERPAS MEETING. WE REALISE THAT LAJEUNESSE MAY NOT YET BE IN A POSITION TO DISCUSS THESE DETAILED POINTS WITH YOU, BUT ANY CLARIFICATION WOULD BE WELCOME.

4. MINISTERS WILL WANT TO CONSIDER THE FRENCH SCHEME WHEN WE HAVE CLEARER DETAILS. SO YOU SHOULD AVOID OFFERING SUPPORT EXCEPT TO THE EXTENT THAT IT COINCIDES DIRECTLY WITH THE CHANCELLOR'S INITIATIVE, WHILE WELCOMING ANY SIGNS THAT OUR PATHS ARE CONVERGING.

HOWE

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~~U.S. DOLLAR MOVES NARROWLY, GOLD FIRMER.~~ News agencies reported from Asia/Europe that the U.S. dollar moved narrowly against the other major currencies in fairly quiet and featureless trading. It was fixed in Frankfurt at 1.7267 D-marks, compared with 1.7264 marks yesterday, while in Tokyo it closed at 124.80 yen against 124.98 yen Monday. The pound sterling slipped to \$1.8450, while the dollar was a small gainer at 5.8035 French francs, 1.4400 Swiss francs, 1.9340 guilders, 1279.50 lire, and 36.04 Belgian francs. Gold was fixed \$2 an ounce higher this morning in London at \$454. The SDR rate moved to \$1.36483 from \$1.37129 Friday.

C.C. Mr. A. ~~Allen~~ 141

EST

Sir P. Middleton

Sir G. Littler

Mr Lancaster

Mr H. Evans

Mr Peretz

Mr H. Walsh

Jonathan ←

*How we
are news
J.A.?*

REAGAN, GORBACHEV CLAIM MAJOR PROGRESS TOWARDS NEW ARMS TREATY. News agencies reported from Moscow that Soviet leader Mikhail Gorbachev and U.S. President Ronald Reagan said they are optimistic that they can conclude an unprecedented nuclear arms reduction treaty before Reagan leaves office next January. Gorbachev said if Reagan makes good use of the time remaining to him, he was sure that a treaty could be prepared. Reagan agreed, telling reporters that he also thought a Strategic Arms Reduction Treaty (START) could be concluded in the time remaining before his successor is inaugurated next January 20.

REPORTS SUGGEST U.S. ECONOMY IS SLOWING. WSJ, p4, said in a Washington report that a weakness in consumer spending during April and a modest rise in income suggests U.S. economic growth is slowing after a robust first quarter. Consumer spending was unchanged in April after rising by a revised 0.8 percent in March, while following adjustment for inflation, outlays actually fell by 0.7 percent. However, the paper said that the bearish news on spending may help calm fears that the economy is expanding too rapidly, threatening to accelerate inflation.

MULFORD SAYS G-7 WILL CONTINUE CLOSE COOPERATION. AP-Dow Jones reported from Honolulu that U.S. Assistant Treasury Secretary for International Affairs David Mulford said the Group of 7 will continue to cooperate closely in securing exchange rate stability and that they will take additional measures to reduce external imbalances. Mulford told a convention of foreign exchange dealers that the G-7 members have a common interest in stable exchange rates and that they are committed to implementing policies that strengthen the economic fundamentals to foster continued exchange rate stability. While admitting that trade imbalances among the G-7 countries have not declined as much as expected, and that this has led to a belief the large external imbalances will continue into the 1990s, he stressed this was based on the assumption that current policies will continue. He said it was highly improbable that the G-7 members would take no further actions, adding that all were committed to take the measures necessary to achieve sustainable external positions. "I have no doubt that additional actions will be forthcoming," Mulford said.

BEREGOVY, STOLTENBERG AGREE DOLLAR'S CURRENT LEVEL IS SATISFACTORY. AP-Dow Jones reported from Paris that French Economics Minister Pierre Berezogovoy and German Finance Minister Gerhard Stoltenberg are agreed that the U.S. dollar's current level in relation to the other major currencies is satisfactory. Economics Ministry officials said Berezogovoy and Stoltenberg also reaffirmed the importance of stabilizing the dollar at around its current levels, at a regular bilateral meeting.

"AT LAST, A TURN IN THE TRADE DEFICIT." NYT, pA18, said in an editorial that it looks like the U.S. trade deficit has definitively turned around, and while this is good news, it was only because the previous news had been so bad. Quarterly data shows there was a substantial improvement in the trade deficit in the first quarter of the year, but this does not mean the U.S. can stop worrying, as even the improved figures suggest a \$144 billion deficit for the full year. However, the paper said while it is too soon to say that an export surplus is on the way, for a country burdened by two huge deficits -- budget and trade -- it can take some small comfort from knowing that, for now, one of them is not getting any worse.

TRADE BILL STILL A PIG IN A POKE. WP, May 29, pB1, said in a commentary that U.S. President Ronald Reagan's veto of the trade bill, almost sure to be upheld by the Senate, poses a dilemma for congressional Democrats, who are split down the middle on whether to take another shot at passing a bill Reagan will sign, or accept the gold-plated campaign issue he has handed them. Pragmatic Democrats who would try again for a bill this year genuinely believe if the legislation dies, the hawks in the party will keep the pot boiling, and they do not relish the thought of again going through the process of whittling away at the protectionist passion of some of their colleagues. The notion that next year's bill would be worse than the one vetoed by Reagan is a theory, not a fact, and in any event is no excuse to buy this year's pig in a poke, the paper said.

DEBT BURDEN FRUSTRATING FOR MEXICO. WP, May 28, pD10, said in a Mexico City report that a chorus of establishment voices in Mexico's ruling party is warning the world's biggest banks that they will cut back on debt payments rather than trigger a recession. Carlos Salinas, who is almost certain to be the country's next President, in a speech described as his most important economic policy statement to date, said flatly that if Mexico does not grow because of the foreign debt, "then we will not pay." To the applause of Mexico's business elite, Salinas said Mexico has reached the limits of internal sacrifice imposed by debt servicing. The paper said that Salinas' remarks are echoed by a widening range of industrialists, bankers, and senior financial bureaucrats. With Mexico now achieving the economic restructuring long urged by creditors, these business and government leaders argue that foreign banks should start cutting Mexico's debt bill even before the December change in government.

that U.S. Treasury Secretary James Baker said third world debt must be treated as an economic rather than a political problem, and that each country's case had to be handled individually. He told reporters after meeting with Senegal's President Abdou Diouf that the debt question cannot be regulated in a global manner and that debt structures were not the same from one country to another. Baker said a solution to the debt problem would be found through international cooperation, and pointed to Senegal as a country which had reached a certain level of credibility through its economic development and recent successes in controlling the budget deficit. He said this was reason for the U.S. to continue its support for Senegal's economic development efforts.

AILING BRAZIL IS DIVIDED ON ECONOMY. NYT, pD1, reported from Rio de Janeiro that with Brazil caught in its worst economic crisis in decades, the government and a special Constitutional Assembly are at loggerheads over how to change the country's development strategy. In what was heralded as a major policy change, President Jose Sarney's Administration moved this month to open up the economy by reducing regulations and disincentives, permitting privatization of some state companies, and lowering protectionist barriers. At the same time, the Assembly, which is close to completing work on Brazil's new constitution, has veered toward greater economic nationalism by approving new restrictions on foreign investment and expanding the authority of the State to interfere in the economy. The increased uncertainty surrounding the Brazilian economy has alarmed the country's foreign creditors and prompted many local and foreign business executives to postpone investments. Which course Brazil chooses is expected to play a fundamental role in determining whether it can obtain the resources necessary to resume economic growth and meet its debt obligations, or whether the current recession is prolonged into the 1990s, the paper said.

ALFONSIN SEEKING TO ACCELERATE NEGOTIATIONS WITH BANKS. EFE said in a Washington report that Argentine President Raul Alfonsin plans to accelerate debt rescheduling and new loan negotiations with creditor banks at meetings this week in New York. Financial sources said Argentina met some \$700M of interest due for March, but is having problems meeting liabilities for April and May.

OAU POSTPONES PLANNED INTERNATIONAL CONFERENCE ON AFRICAN DEBT. Reuters reported from Addis Ababa that the OAU decided to postpone a proposed international conference on African debt, since a contact group to persuade creditors to take part needs more time for preparations. The OAU had hoped to hold the debt conference before the end of this year, but creditors are lukewarm, preferring to deal with each African debtor on a case-by-case basis.

LAOS ATTACKS BLACK MARKET THROUGH EXCHANGE RATE UNIFICATION. dpa said in a Vientiane report that Laos has attacked the black market plague by adjusting the kip's official rate to that of the black market, to kill lucrative illegal swap transactions. A new unified exchange rate of 350 kips per dollar has been established, replacing seven different exchange rates previously, and currency controls largely abolished.

YUGOSLAVIA DEVALUES DINAR, RAISES PRICES. News agencies reported from Belgrade that Yugoslavia has devalued the dinar by 23.9 percent and announced a wide range of price increases, as the government began implementing its austerity program. The government also lifted price controls for about 60 percent of goods under a price freeze since last December, and said these prices can now be freely formed in the market-place.

YUGOSLAVIA SEES EXPANDED IBRD ROLE IN COUNTRY. Reuters reported from Belgrade that Yugoslav Asst Finance Minister Boris Skapin said the IBRD may triple its lending to the country in the next few years, to \$600M-\$800M in 1990-92 from the current \$200M. An IBRD mission is currently discussing a \$300M structural adjustment loan to help finance economic reform. Yugoslavia is also awaiting an IMF standby and new commercial banks loans to underpin the program.

KOREAN GNP GREW AT 15.1 PERCENT RATE IN FIRST QUARTER. AP-Dow Jones reported from Seoul that the Bank of Korea said the country's real gross national product grew at an annual rate of 15.1 percent in the first quarter of this year, the best quarterly performance since the 16.7 percent increase in the first quarter of 1979. The central bank attributed the output gains to a favorable export performance and increased investment.

OZAL SAYS TURKEY MIGHT QUESTION NATO LINK IF REJECTED BY EEC. Reuters reported from Istanbul that Turkish Prime Minister Turgut Ozal told newsmen Turkey may question its continued membership of NATO if the EEC rejects its application for membership. The agency said Ozal's comments reflected a harder tone towards the EEC in some official quarters after recent setbacks to Turkey's membership bid, but State Minister Ali Bozer said Turkey's policy is unchanged.

INDIA'S TENTATIVE TURNAROUND. NYT, May 29, Section 3, p1, said in an analysis from New Delhi that three years ago, Indian Prime Minister Rajiv Gandhi introduced a sweeping program of economic changes. After an initial burst of optimism, the "Rajiv revolution" has lurched through a series of ups and downs, producing criticism from some that it was going too far, and from others that it was not going far enough.

SIACA STEVENS DIES. WP, pB6, reported the death of former Prime Minister and President of Sierra Leone, Siaka Stevens.

ARGENTINA TRIES TO END INDUSTRIAL SUBSIDIES THAT DRAIN THE NATION, WSJ, p1.

DOLLAR HIGHER. News agencies reported that the U.S. dollar rose in quiet preweekend trading, restricted by the absence of many senior dealers at the annual Forex meeting in Hawaii. Yesterday's sharp upward revision of U.S. first quarter GNP annual growth to 9% from 2.3% first reported, continued to induce buying. Some firming of U.S. interest rates after Federal Reserve money market operations revived speculation of a tightening of monetary policy. Exchange rates: German mark 1.7130 (1.7080), yen 124.75 (124.50), sterling \$1.8575 (1.8630), French franc 5.7715, Canadian dollar 80.69c, lira 1268, Swiss franc 1.4315, guilder 1.9180, and Belgian franc 35.81. Gold was down 75c at \$452.50. The SDR was \$1.37129 (1.37187).

CAMDESSUS SAYS U.S. REACTION TO INFLATION RISK HAS BEEN PRUDENT. AP-DJ reported from Wellington that visiting IMF Managing Director Michel Camdessus told a news conference that the reaction of U.S. monetary authorities to the risk of rising inflation has been very prudent, and that the Federal Reserve has good credibility in its efforts to fight inflation. Buoyant U.S. domestic demand, with the economy operating close to capacity and commodity prices rising, threatens overheating and inflation, he said, adding that fears of a U.S. recession are no longer in order. The U.S. economy could be too buoyant, given the need to reduce the country's BOP deficit. Camdessus also said New Zealand's current firm monetary policy is appropriate and should be continued to reduce inflation.

JAPANESE FINANCE MINISTRY OFFICIAL SKEPTICAL ABOUT LATEST BAKER PROPOSAL. Kyodo reported from Tokyo that a senior Japanese Finance Ministry official expressed skepticism about a proposal from U.S. Treasury Secretary James Baker for G7 policy coordination through monitoring zones in key economic indicators like growth rates and trade balances. The proposal is a good idea in theory but the official said he doubts it would work in practice. It is designed to enhance the G7 economic policy coordination that Baker launched three years ago. The official said it has not yet been decided whether the proposal should be on the agenda for next month's annual meeting of G7 leaders in Toronto.

STOLTENBERG SAYS BRITAIN, OTHERS SHOULD JOIN EMS. AP-DJ reported from Bonn that German Finance Minister Gerhard Stoltenberg told a ministerial meeting that Britain and other European countries should join the EEC monetary system, adding that the growth-enhancing impact of EEC monetary cooperation is under-estimated. He also said increased economic policy cooperation should not be seen as an unjustified intervention in free markets. Cooperation is not aimed at preventing necessary adjustments, but more at preventing unnecessary irritations from contradictory economic policy decisions.

STOLTENBERG SAYS GERMANY, FRANCE WANT SPEEDY CAPITAL LIBERALIZATION. dpa reported from Bonn that German Finance Minister Gerhard Stoltenberg and French Economy Minister Pierre Berégovoy said after a meeting that they want EEC capital flows to be liberalized as soon as possible. The agency noted that a joint finance and economic council of finance ministers and central bank governors of the two countries will hold its second meeting in Paris on Monday. The council's first meeting showed significant differences in monetary policies between the two.

OECD REPORT NOTES RISKS OF TRYING TO FINE-TUNE ECONOMIES. Ldn Fin Times, p3, reported from Paris that an OECD study said monetary policy should aim at sustaining the integrity of the financial system and preventing excessive market volatility. Attempts to fine-tune economic activity through monetary policy risks having perverse effects on prices and output, the study said. It found few verifiable relationships between monetary policy and output, employment and price levels in seven major, and three smaller, OECD members studied. But it stressed the importance of market expectations of financial policy for short-term changes in interest and exchange rates, adding that monetary authorities should act in ways which do not create uncertainty about the general direction of their policies.

ALFONSIN TO SEEK SUPPORT ON U.S. VISIT. WSJ, p14, said in a New York report that Argentine President Raul Alfonsin will try to rally much-needed political and economic support for his debt-troubled country during a four-day visit to the U.S. next week. He will meet with IMF Managing Director Michel Camdessus, IBRD President Barber Conable and the heads of some large U.S. banks, and will also speak to the UN. The report said Argentina's efforts to reform and open its economy have not yielded the desired results, and the country urgently needs more foreign credits to meet interest payments on its \$54B of foreign debt. Argentina is expected soon to start negotiating new economic targets with the IMF, and is likely to seek about \$2B in new bank loans in the next few weeks if banks complete continuing talks with Brazil. Raising such a loan is likely to be extremely difficult, the paper said.

BRAZILIAN INFLATION TOPS 120% IN FIRST FIVE MONTHS. Reuters reported from Rio de Janeiro that Brazil's inflation rate hit 17.8% in May after 19.2% in April, bringing the total for the first five months this year to 124%. Inflation last year was 366% and economists are forecasting 600% for this year, the agency noted, adding that analysts think the Government has run out of solutions to the country's relentless inflation, at least for now.

MEXICO TO PAY \$32B OF DEBT SERVICE IN 1988/89. EFE reported from Mexico City that El

JAPANESE CABINET APPROVES FIVE-YEAR ECONOMIC PLAN. Kyodo reported from Tokyo that the Japanese Cabinet approved a five-year economic plan, which aims for 3.75% annual average growth in fiscal 1988-92. The three main goals of the plan are correction of Japan's large trade imbalance, a higher standard of living, and balanced economic development of Japan's regions.

BRITISH TRADE, BOP DEFICITS HIGHER IN APRIL. AP-DJ reported from London that the British Trade and Industry Dept. said the April trade deficit was stg 1.125B after stg 885M in March and stg 464M in April last year. The April current BOP deficit was an estimated stg 525M against stg 285M in March and a surplus of stg 208M in April 1987. The agency noted that average exchange market forecasts were for a trade deficit of stg 1B and a current BOP deficit of stg 400M. The Dept said the April figures did not seem to be affected by the introduction of new EEC customs forms at the start of the year, which distorted trade figures in the first quarter.

FRENCH OPINION POLL CONFIRMS SOCIALIST SUPPORT AHEAD OF JUNE VOTE. AFP reported from Paris that a Tribune de l'Expansion opinion poll showed a rise in support for French socialist and left-radical allies ahead of a June 5/12 parliamentary election, to 42% of those polled from 40% in a mid-May opinion poll. The poll predicted that leftist parties would get 51.5% in the second round of voting, winning 384 of the 555 seats in Parliament, to 171 seats for right and center parties.

CONABLE URGES SURPLUS COUNTRIES TO STIMULATE ECONOMIES. AP-DJ reported from Bonn that IBRD President Barber Conable, visiting Germany ahead of autumn IMF/IBRD annual meetings, urged Germany and Japan in a speech to stimulate their economies. He said G7 leaders should take concrete steps at next month's Toronto meeting to benefit themselves, and also help LDCs improve their living standards. He said the U.S. should continue to make steady reductions in its budget and trade deficits, while European surplus countries and Japan should speed up stimulation of their economies. Industrial nations must accelerate attempts to reduce trade barriers, and act to increase the flow of public and private resources to LDCs. At a press conference, Conable criticized U.S. hesitancy to approve a doubling of IBRD capital. He said it is too early to discuss specific issues on the annual meetings agenda. General debt issues will be treated as well as the IBRD's increased attention to environmental issues, the role of women in development, and the social component in adjustment lending.

ZAMBIA NO LONGER GIVING PRIORITY TO IMF IN DEBT SERVICING. Xinhua reported from Lusaka that Zambian Permanent Secretary for Works and Supply George Chipumbu said Zambia has reversed its debt servicing policy to give priority to strictly controlled import-related debt, rather than the IMF and other multilateral creditors. He said Zambia spent more than two-thirds of its export earnings on debt service, forcing it to raise fresh loans for servicing imports. The IMF, IBRD and other multilateral lending agencies refused to offer adequate debt relief, and it is thus necessary to give them less priority in debt repayment, he said.

BAKER TO ATTEND AfDB MEETING. AP-DJ reported from Washington that the U.S. Treasury said Secretary James Baker will head the U.S. delegation to the 1988 AfDB annual meeting in Abidjan June 1/3. This is the first such visit by a Treasury Secretary to an AfDB meeting.

SAUDI ARABIA SHELVES BORROWING PLANS. Ldn Fin Times, May 26, p23, said in a London report that Saudi Arabia faces the prospect of borrowing 30M riyals in the final few months of the year, after postponing borrowings to cover its budget deficit until after the summer. Officials insist that the borrowing will take place in the second half of the year, but diplomats said the country is not leaving itself enough time to raise such an amount. The borrowing is needed to prevent a larger-than-planned drawdown of reserves, since oil revenues are believed to be running at least \$1B below the budget target thus far this year. The paper said diplomats think a reason for the delay in a borrowing decision reflects concern about the possibility of Iranian disruption of the annual pilgrimage in July, following last year's riot, and that important decisions will have to wait until the crisis is over.

U.S. MOVES TO CLOSER OIL TIES WITH IRAQ, REFLECTING NATION'S OUTPUT POTENTIAL. WSJ, ppl,2, reported from Houston that U.S. Energy Secretary John Herrington indicated in an interview that the U.S. is moving toward closer oil ties with Iraq, because he thinks Iraq's oil reserves will eventually be equal to, or greater than, those of Saudi Arabia. Iraqi Oil Minister Issam Abdul Rahmin Al-Chalabi is currently in the U.S. at Herrington's invitation, the first such visit by an Iraqi Oil Minister since the resumption of diplomatic ties with the U.S. in 1984.

JAPAN TO GIVE INDONESIA \$2.3B OF YEN AID. Reuters reported from Tokyo that Japanese Foreign Ministry officials said Japan will extend Indonesia \$2.3B of yen aid to help it cope with its mounting debt burden and with the sharp decline in oil prices. One-third of Indonesia's \$45B of foreign debt is denominated in yen which has appreciated sharply over the past year, while most of its export income is in dollars.

MOST MAJOR JAPANESE BANKS MEET BIS CAPITAL GUIDELINES. Kyodo reported from Tokyo that Japanese bank sources said most Japanese commercial banks have surpassed BIS guidelines setting a minimum 8% own capital/total assets ratio. The agency said the BIS will formally adopt this ratio in July, to be binding by the end of 1992.



JMG

FROM: J M G TAYLOR

DATE: 1 June 1988

PS/ECONOMIC SECRETARY

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lankester
Mr Scholar
Mr A J C Edwards
Mr H P Evans
Mrs Lomax
Mr Peretz

BILATERAL WITH BEREGOVOY

The Chancellor has seen your minute of 25 May.

2. He has commented that Bérégovoy has not fully worked out his position yet, but it is clear that UK non-membership of the ERM will be exploited by the French, to our disadvantage, in a number of ways.

JMG

J M G TAYLOR

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*I had ~~with~~ ~~over~~ ~~mult~~
Beregovoy ~~over~~ ~~mult~~
if he ~~is~~ ~~not~~ ~~in~~ ~~the~~ ~~country~~
I am ~~not~~ ~~sure~~ ~~if~~ ~~he~~ ~~is~~ ~~in~~ ~~the~~ ~~country~~
You were call about
a bilateral with Beregovoy when
you saw Sir E Ferguson yesterday. I see nothing here
which should encourage us to be more positive. As you
said to Sir Ef, you already know Beregovoy quite
well. Shall I send a PS
letter confirming
that we don't think we can
manage before the recess, etc?*

FRANCO-GERMAN ECONOMIC AND FINANCIAL COUNCIL, 30 MAY

SUMMARY

1. A LOW KEY MEETING, CONCENTRATING ON MACRO ECONOMIC ISSUES. SOME DISCUSSION OF LIBERALISATION OF CAPITAL MOVEMENTS, BUT VERY LITTLE OF EUROPEAN MONETARY COOPERATION: BOTH LIKELY TO BE DISCUSSED FURTHER BY MITTERRAND AND KOHL ON 2 JUNE. FRANCO-GERMAN COOPERATION AT PRESENT FAIRLY INTENSE: TRESOR FLOAT IDEA OF A CHANCELLOR/BEREGOVY BILATERAL BEFORE THE SUMMER BREAK.

2/6

DETAIL

2. THE SECOND MEETING OF THE FRANCO-GERMAN ECONOMIC AND SOCIAL COUNCIL WAS HELD IN PARIS ON 30 MAY. BEREGOVY, DE LAROSIERE AND TRICHET ATTENDED ON THE FRENCH SIDE, STOLTENBERG, POEHL AND BANGEMANN FOR THE GERMANS.

3. FRENCH PRESS COMMENT HAS BEEN IN LOWER KEY THAN FOR THE FIRST COUNCIL HELD ON 21 MARCH. (PARIS TELNO 312). THE PRESS CONCENTRATES ON FRENCH PRESSURE ON GERMANY TO STIMULATE THEIR ECONOMY, ON A JOINT BEREGOVY/STOLTENBERG STATEMENT AFTER THE MEETING ON THE NEED TO 'STABILISE THE DOLLAR AT PRESENT LEVELS', AND ON A SHORT DISCUSSION ON LIBERALISATION OF CAPITAL MOVEMENTS WITH FRANCO-GERMAN DIFFERENCES ON HOW TO HANDLE THE QUESTION OF TAXATION OF SAVINGS. THE PRESS NOTES THAT THERE WAS LITTLE DISCUSSION OF EUROPEAN MONETARY COOPERATION.

4. NOYER (SOUS-DIRECTEUR, TRESOR) HAS CONFIRMED THESE ACCOUNTS. MUCH OF THE DISCUSSION WAS ON MACRO-ECONOMIC ISSUES, WITH THE FRENCH EXPRESSING PARTICULAR CONCERN ABOUT THE EFFECTS ON GERMAN DOMESTIC DEMAND, ESPECIALLY IN 1989, OF MEASURES TO REDUCE THE GERMAN BUDGET DEFICIT. ON LIBERALISATION OF CAPITAL MOVEMENTS, THE FRENCH HAD MADE CLEAR THEIR WILLINGNESS TO AGREE THE DRAFT DIRECTIVE AT OR BEFORE HANOVER PROVIDED THE QUESTION OF TAXATION OF SAVINGS WAS RESOLVED. NOYER SAID THAT DIFFERENCES REMAINED ON EXACTLY HOW TO HANDLE THE

ISSUE, AND THAT THE FRENCH WERE NOT (NOT) WEDDED TO ANY ONE SOLUTION (CF PARIS TELNO 537). NOYER CONFIRMED THAT MONETARY COOPERATION WAS BARELY DISCUSSED, DESPITE THIS HAVING BEEN BILLED AFTER THE FIRST COUNCIL AS THE MAIN TOPIC FOR THE SECOND. HE SAID THAT THIS ISSUE AND THE LIBERALISATION OF CAPITAL MOVEMENTS WERE LIKELY TO BE DISCUSSED AT TOMORROW'S INFORMAL MEETING BETWEEN MITTERRAND AND KOHL AT EVIAN. (THE ELYSEE HAVE PROMISED A DEBRIEFING ON 3 JUNE.)

5. FINALLY, NOYER FLOATED THE IDEA OF A BILATERAL MEETING BETWEEN BEREGOVY AND THE CHANCELLOR BEFORE THE SUMMER BREAK, PERHAPS ON THE LINES OF THE SUCCESSFUL MEETING IN PARIS WITH BALLADUR LAST JULY (NOYER WAS THEN IN BALLADUR'S CABINET). WE TOOK NOTE, SAYING THAT THEY HAD OF COURSE MET IN THE MARGINS OF THE OECD MINISTERIAL, AND WOULD NO DOUBT SEE EACH OTHER AGAIN AT THE JUNE ECOFIN AND AT TORONTO. NOR DID WE KNOW HOW THE CHANCELLOR'S DIARY LOOKED. NONETHELESS WE COULD SEE THE ATTRACTION OF A MEETING TO TAKE STOCK OF THE HANOVER AND TORONTO DISCUSSIONS, AND TO LOOK AHEAD TO THE SEPTEMBER BANK/FUND MEETINGS, AND WOULD SO REPORT.

COMMENT

6. THIS COUNCIL SEEMS INDEED TO HAVE BEEN LOW KEY. BUT FRANCO-GERMAN COOPERATION ON ECONOMIC AND FINANCIAL ISSUES IS NONETHELESS FAIRLY INTENSE AT THE MOMENT. THIS WAS BEREGOVY AND STOLTENBERG'S SECOND BILATERAL MEETING WITHIN A WEEK (BEREGOVY FLEW TO BAD GODESBERG ON 25 MAY), AND ECONOMIC AND FINANCIAL QUESTIONS WILL CLEARLY FEATURE AT TOMMOROW'S MITTERRAND/HOHL MEETING. AGAINST THIS RACKGROUND, AND IF THE CHANCELLOR'S DIARY PERMITS, THERE COULD WELL, AS SEEN FROM HERE, BE ADVANTAGE IN A BILATERAL WITH BEREGOVY IN JULY.

7. I AM REPORTING SEPARATELY ON FRENCH THINKING ON MONETARY ISSUES.

LLEWELLYN SMITH

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PARIS TELNO 534 AMD MIPT (NOT TO ALL): FRENCH DEBT INITIATIVE

SUMMARY

1. MITTERRAND EXPECTED TO WRITE TO HEADS OF STATE/GOVERNMENT BEFORE TORONTO SUMMIT OUTLINING HIS DEBT PROPOSALS, WHICH ARE STILL BEING WORKED OUT.

DETAIL

2. I ASKED MME GUIGOU (MITTERRAND'S ADVISER ON EUROPEAN COMMUNITY AND INTERNATIONAL ECONOMIC QUESTIONS AT THE ELYSEE) WHAT PROGRESS WAS BEING MADE OVER THE FRENCH INITIATIVE ON DEBT WHICH WE HAD BEEN TOLD WAS IN PREPARATION.

3. MME GUIGOU SAID THAT SHE COULD NOT GO INTO DETAILS: THEY WERE STILL BEING WORKED OUT. BUT THE PRESIDENT WAS PREOCCUPIED WITH THE SITUATION OF THE POOREST COUNTRIES WHO SIMPLY COULD NOT MANAGE TO REPAY DEBT AT COMMERCIAL INTEREST RATES. HE WOULD BE PUTTING HIS PROPOSALS IN WRITING, PROBABLY IN A LETTER TO HEADS OF STATE AND GOVERNMENT BEFORE TORONTO. ATTALI MIGHT BE ABLE TO GIVE FURTHER DETAILS AT THE FORTHCOMING SHERPA MEETING.

4. I SAID IT WOULD BE HELPFUL TO HAVE AS EARLY AN INDICATION AS POSSIBLE OF THE CONTENT. I HOPED THE PRESIDENT'S PROPOSALS WOULD BE COMPATIBLE WITH THE CHANCELLOR'S DEBT INITIATIVE. MME GUIGOU SAID SHE THOUGHT WE NEED HAVE NO FEARS ON THAT SCORE.

5. IN A BRIEF DISCUSSION OF OTHER TORONTO ISSUES, SHE WAS UNYIELDING ON STICKING TO THE PRINCIPLE OF GLOBALITY IN THE GATT MTM. THE PRESIDENT WAS PERSONALLY ATTACHED TO IT AND HAD TOLD MULRONEY SO LAST WEEK. THE OECD COMMUNIQUE LANGUAGE WAS SATISFACTORY FOR FRANCE. MME GUIGOU SAID THAT THE OECD WAS THE PLACE IN WHICH TO PURSUE FURTHER DIALOGUE WITH THE NIES. SHE SAID THAT FRANCE DID NOT SEE THE ENVIRONMENT AS A MAJOR ISSUE FOR TORONTO.

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6. OTTAWA PLEASE PASS UK DELEGATION TO SHERPAS MEETING.

LLEWELLYN SMITH

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MY TELNO 303: ITALY INTERNAL: LOCAL ELECTION RESULTS

SUMMARY

1. LOCAL ELECTION RESULTS SHOW GAINS FOR THE GOVERNMENT COALITION PARTIES, IN PARTICULAR THE SOCIALISTS, BUT LOSSES FOR THE COMMUNISTS AND EXTREME RIGHT. THE GOVERNMENT COALITION HAS BEEN SOMEWHAT STRENGTHENED. BIG CONFIDENCE BOOST FOR THE SOCIALISTS, WHO ARE NOW SEEN TO BE VYING WITH THE COMMUNISTS AS THE PRINCIPAL PARTY OF THE LEFT.

DETAIL

2. IN LOCAL ELECTIONS IN VARIOUS PARTS OF ITALY ON 29 AND 30 MAY, SOME 7 MILLION ITALIANS VOTED TO RENEW AROUND 1,200 MUNICIPAL AND THREE PROVINCIAL COUNCILS. THE TURNOUT WAS TYPICALLY HIGH AT 85.8 PER CENT, THOUGH SLIGHTLY LOWER THAN IN THE PREVIOUS 1983 LOCAL ELECTIONS. THE RESULTS SHOWED VARIATIONS BETWEEN DIFFERENT PARTS OF THE COUNTRY, AND BETWEEN THE MUNICIPAL AND PROVINCIAL LEVELS.

3. AGGREGATING THE VOTES IN THE COMMUNAL ELECTIONS, ALL FIVE GOVERNMENT COALITION PARTIES REGISTERED INCREASES. THE SOCIALIST PARTY VOTE ROSE 4.1 PER CENT COMPARED WITH LAST YEAR'S GENERAL ELECTION TO 18.3 PER CENT: THE CHRISTIAN DEMOCRAT VOTE WAS 36.8 PER CENT (UP 4.1 PER CENT ON LAST YEAR). THE REPUBLICANS, SOCIAL DEMOCRATS AND LIBERALS ALL SHOWED SMALL INCREASES ON THEIR VOTE LAST YEAR. THE MAIN LOSERS WERE THE COMMUNIST PARTY, WHICH POLLED ONLY 21.9 PER CENT (DOWN 4.9 PER CENT FROM LAST YEAR) AND THE EXTREME RIGHT-WING MSI, AT A MERE 3.9 PER CENT OF THE VOTE. THE SMALL GREEN PARTY (1.1 PER CENT) LOST marginally. THE LOSSES WHICH THE MAIN PARTIES FEARED FROM THE PROLIFERATION OF LOCAL ISSUE PARTIES DID NOT MATERIALISE. THE COMMUNIST PARTY DID PARTICULARLY BADLY IN THE SOUTH, LOSING UP TO 15 PER CENT IN SOME TOWNS.

4. IN THE THREE PROVINCIAL COUNCIL ELECTIONS, THE AGGREGATE

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VOTING PATTERN SHOWED LESS CHANGE FROM LAST YEAR, WITH THE COMMUNISTS MAINTAINING THEIR VOTE, AND THE CHRISTIAN DEMOCRATS AND SOCIALISTS SHOWING RESPECTIVELY A SMALL LOSS AND A SMALL GAIN.

5. THE RESULTS HAVE BEEN RECEIVED PREDICTABLY BY POLITICAL LEADERS AND THE PRESS. THE PSI IS DELIGHTED AT WHAT IT SEES AS A MAJOR ADVANCE. ON THE BASIS OF THE RESULTS IN THE MUNICIPALITIES, THE GAP BETWEEN THE SOCIALIST AND COMMUNIST VOTE IS NOW LESS THAN 4 PER CENT. THE DC IS SATISFIED THAT ITS VOTE HAS HELD UP. THE SMALL LAY PARTIES ARE PLEASED THAT THEY HAVE BEEN ABLE TO REVERSE THEIR RECENT ELECTORAL DECLINE. THE PCI HAS ADMITTED THAT THE VOTE IS DISAPPOINTING, BUT IS ATTEMPTING TO PUT ON A BRAVE FACE.

6. THE PARTIES NOW HAVE THE TASK OF FORMING NEW COUNCILS IN THE TOWNS WHERE THE VOTE TOOK PLACE. THE COMPOSITION OF THESE NEW LOCAL COALITIONS WILL REFLECT LOCAL PRESSURES, BUT THERE WILL PROBABLY BE FEW MAJOR CHANGES. AT THE END OF JUNE, REGIONAL ELECTIONS ARE TO TAKE PLACE IN TWO OF THE SPECIAL STATUTE REGIONS, VAL D'AOSTA AND FRIULI VENEZIA-GIULIA.

7. TOO MUCH SHOULD NOT BE READ INTO THESE RESULTS. LESS THAN ONE-FIFTH OF THE ELECTORATE WAS INVOLVED. LOCAL ISSUES, POLITICS AND PERSONALITIES INEVITABLE PLAYED THEIR PART. THE VOTING PATTERN IN LOCAL ELECTIONS IS NOT ALWAYS REFLECTED IN GENERAL ELECTIONS. NEVERTHELESS, POLLING TOOK PLACE IN A WIDE VARIETY OF TOWNS THROUGHOUT THE COUNTRY, AND THE RESULTS ARE SEEN HERE AS A SIGNIFICANT TEST OF THE NATIONAL POPULARITY OF THE PARTIES. THE MARKED (BY ITALIAN STANDARDS) INCREASE IN THE SOCIALIST VOTE, AT THE APPARENT EXPENSE OF THE COMMUNISTS, HAS LED TO A GENERAL PERCEPTION THAT THE FORMER MAY SOON BE CHALLENGING THE LATTER AS THE PRINCIPAL PARTY OF THE LEFT IN ITALY, AND EVEN TO SPECULATION ABOUT A POSSIBLE FUTURE GOVERNMENT OF THE LEFT LED BY THE SOCIALISTS AND INCLUDING THE COMMUNISTS. CRAXI, CHARACTERISTICALLY, HAS FED SUCH SPECULATION IN PRESS INTERVIEWS THIS WEEK, WHILE SAYING NOTHING CLEAR-CUT.

8. FOR THE IMMEDIATE FUTURE THE DE MITA COALITION HAS BEEN STRENGTHENED BY THESE RESULTS. DE MITA HAS SAID OPTIMISTICALLY THAT THE VOTE SHOULD HAVE A POSITIVE EFFECT OF THE RELATIONSHIP BETWEEN THE DC AND PSI. CRAXI'S PUBLIC COMMENTS HAVE BEEN LESS FORTHCOMING. THE CONTINUED INCREASE IN THE SOCIALIST VOTE WILL HAVE FURTHER BOOSTED HIS CONFIDENCE, BUT IS UNLIKELY TO INDUCE HIM TO ROCK THE GOVERNMENT'S BOAT AT THIS EARLY STAGE.

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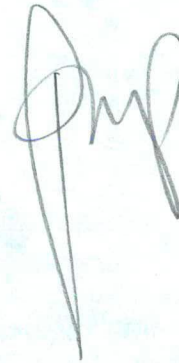
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FRENCH PARLIAMENTARY ELECTIONS: FIRST ROUND

SUMMARY

1. THE FIRST ROUND IS ON 5 JUNE. THE SOCIALISTS (PS) HOPE TO WIN OVER 40 PERCENT OF THE VOTE. THEY THINK THEY ARE ON COURSE FOR A CONVINCING MAJORITY. THE UDF AND RPR ARE BRACED FOR DEFEAT. THE BATTLE FOR THE RIGHT WILL RESUME WHEN THE ELECTIONS ARE OVER. THE COMMUNISTS (PCF) AND THE FRONT NATIONAL (FN) WILL DO WELL TO SECURE A HANDFUL OF SEATS. LE PEN'S ATTEMPT TO IMPOSE HIMSELF ON MARSEILLES SEEMS LIKELY TO FAIL.

2. A DULL CAMPAIGN, WITH LITTLE DEBATE, IN A FRANCE WEARY OF ELECTIONEERING. ONCE THE ELECTIONS ARE OVER THE PARTIES WILL BEGIN THE UNCERTAIN PROCESS OF RE-DRAWING THE POLITICAL MAP.

DETAIL

3. THE FIRST ROUND OF THE PARLIAMENTARY ELECTIONS WILL BE HELD ON 5 JUNE. IN THOSE CONSTITUENCIES WHERE A CANDIDATE RECEIVES MORE THAN 50 PERCENT OF THE VOTE, HE OR SHE WILL BE ELECTED OUTRIGHT. IN THE MANY CONSTITUENCIES WHERE THIS DOES NOT OCCUR, CANDIDATES WHO RECEIVED AT LEAST 12.5 PERCENT MAY, IF THEY WISH, STAND AGAIN IN THE SECOND ROUND RUN-OFF ON 12 JUNE. THE DEALS WHICH WILL BE DONE IN BETWEEN THE TWO ROUNDS (PROBABLY BOTH ON THE RIGHT AND THE LEFT) WILL HAVE AN IMPORTANT EFFECT ON THE SIZE OF THE EVENTUAL MAJORITY, AND THE PROSPECTS FOR A POLITICAL OPENING (QUOTE EUVERTURE UNQUOTE).

4. THE SOCIALISTS REMAIN CONFIDENT THAT THEY ARE HEADING FOR A COMFORTABLE VICTORY, BUOYED UP BY MITTERRAND'S PRESIDENTIAL SUCCESS. TOGETHER WITH THEIR SMALL MRG (LEFT RADICAL) ALLIES, THEY HOPE TO SECURE MORE THAN 40 PERCENT OF THE VOTE FOR THE FIRST TIME IN ASSEMBLY ELECTIONS. IF THEY DO, THEY SHOULD BE ASSURED OF A CLEAR MAJORITY, THEIR PRIVATE SOUNDINGS APPARENTLY SUGGEST THAT THEY MAY WIN 320-350 OF THE ASSEMBLY'S 577 SEATS, WHICH WOULD GIVE THEM A MAJORITY OF SOMEWHERE BETWEEN 60-120 SEATS OVER ALL OTHER PARTIES.

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THEY INSIST THAT, WHATEVER THE SCALE OF THEIR VICTORY, THEY WILL CONTINUE TO WORK FOR QUOTE OUVERTURE UNQUOTE. ROCARD REITERATED THIS COMMITMENT IN A LE MONDE INTERVIEW ON 2 JUNE (TEXT BY BAG TO THE DEPARTMENT).

5. THE MAIN CONCERN OF THE UDF AND RPR, FIGHTING JOINTLY UNDER THE UMBRELLA OF THE UNION DU RASSEMBLEMENT ET DU CENTRE (URC), IS DAMAGE LIMITATION. URC LEADERS DO NOT BELIEVE THAT VICTORY IS POSSIBLE: THE QUESTION IS THE SCALE OF THE DEFEAT. CHIRAC HAS BEEN TRYING TO POLARISE THE ELECTION ON LEFT/RIGHT LINES, WARNING THAT FRANCE WILL RUN SERIOUS RISKS IF MITTERRAND IS GIVEN A LARGE PS MAJORITY. GISCARD HAS AVOIDED THIS APPROACH AND APPEARS CLOSER TO THE PUBLIC MOOD IN ARGUING THAT QUOTE OUVERTURE UNQUOTE WILL ONLY BE POSSIBLE IF THE COUNTRY ELECTS A SIZEABLE COMPLEMENT OF MODERATE URC DEPUTIES TO WORK IN PARTNERSHIP WITH THE PS. THE DIFFERENCE IN THE POSITIONS ADOPTED BY CHIRAC AND GISCARD POINTS TO THE TENSIONS WITHIN THE RIGHT. THE BATTLE TO RESHAPE AND CONTROL IT WILL BEGIN IN EARNEST WHEN THE ELECTIONS ARE OVER.

6. THE COMMUNISTS EXPECT TO IMPROVE ON THE 6.7 PERCENT LAJOINIE OBTAINED IN THE PRESIDENTIAL ELECTIONS, CONFIDENT THAT THE POPULARITY OF LOCAL FIGURES WITH GOOD CONSTITUENCY RECORDS WILL LIFT THEM TO 8-9 PERCENT. IN HISTORICAL TERMS, THIS WOULD STILL BE A DISASTROUS RESULT AND WOULD GIVE THEM NO MORE THAN A HANDFUL OF DEPUTIES.

7. THE FN TOO IS PROBABLY HEADING FOR A BAD RESULT. IT SEEMS LIKELY THAT A SIGNIFICANT PROPORTION OF THE 14.4 PERCENT WHO VOTED FOR LE PEN AS A PROTEST IN THE PRESIDENTIAL ELECTIONS WILL VOTE DIFFERENTLY WHEN IT COMES TO CHOOSING THEIR LOCAL DEPUTY. LE PEN AND SOME OF HIS CLOSEST LIEUTENANTS HAVE DESCENDED ON MARSEILLES IN THE HOPE THAT THE CITY WHICH GIVE HIM OVER 26 PERCENT OF THE VOTE IN THE PRESIDENTIAL ELECTIONS WILL NOW RETURN A GROUP OF FN DEPUTIES TO THE ASSEMBLY. BUT THEIR HOPES LOOK MISPLACED: THE LOCAL FN LEADER HAS TOLD US PRIVATELY THAT HE DOES NOT THINK LE PEN WILL BE ELECTED.

CONCLUSION

8. THIS HAS BEEN A LIFELESS CAMPAIGN. CANDIDATES HAVE BEEN CONCERNED TO MAKE THEIR FACES KNOWN RATHER THAN TO INDULGE IN POLITICAL DEBATE FOR WHICH THERE IS LITTLE PUBLIC APPETITE. VOTERS WHO MADE THEIR CHOICE IN THE PRESIDENTIAL ELECTIONS SEE THE LEGISLATIVES AS LITTLE MORE THAN A CONFIRMATION OF A DECISION ALREADY TAKEN. DESPITE THE AIR OF WEARINESS, POLITICAL CALM WILL NOT NECESSARILY FOLLOW THESE ELECTIONS. AS SOON AS THE IMMEDIATE BUSINESS OF CHOOSING THE

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ASSEMBLY IS OVER, THE PARTIES AND THEIR LEADERS WILL BEGIN THE
DIFFICULT AND PROTRACTED PROCESS OF REDRAWING A FRENCH POLITICAL
LANDSCAPE THAT MUST NOW ACCOMMODATE AN INCREASINGLY DISORIENTATED
AND FRAGMENTED RIGHT.

LLEWELLYN SMITH

YYYY

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EUROPEAN POLITICAL

WED (-) 0

ADDITIONAL 2

ASSESSMENTS STAFF,
CABINET OFFICE

MR P J WESTON CAB OFF

NNNN



Handwritten initials in black ink.

Handwritten initials in red ink.

Ch.

I have spoken to 262 about the

suggestion (tel. ¹⁵⁴⁴ below) that you might invite Béréziny over for a bilateral.

2. He said:

- (i) he is not aware of any specific subjects that B. wishes to raise;
- (ii) he sees no need for you to invite B. over at this stage.

3. Indeed, 262 sees merit in our holding back on any invitation until post ECOFIN / post Hannover. He is worried about the French drifting away from market solutions, and about the Germans trying to appease them by e.g. supporting their arguments on withholding

taxes. He thinks we should take
stock part - Manover, + see where we
are.

4. Tel no 558, also behind, gives
substance to these concerns.

5. On the immediate point, you have
already told Sir E Ferguson that you
are not inclined to meet B. at
this stage. A short P3 letter to
confirm ?

Yes possible -

7
6
6

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3/6/88

Unhelpful on both capital
liberalisation + "wise men"

25

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FM PARIS

TO IMMEDIATE FCO

TELNO 558

OF 031442Z JUN 88

INFO IMMEDIATE UKREP BRUSSELS, OTTAWA

INFO PRIORITY OTHER EC POSTS, WASHINGTON, TOKYO, UKDEL OECD

MITTERRAND-KOHL MEETING OF 3 JUNE AT EVIAN: HANOVER EUROPEAN COUNCIL

SUMMARY

1. MONETARY COOPERATION AND SINGLE MARKET MAIN THEMES OF KOHL'S DISCUSSION WITH MITTERRAND AT EVIAN. KOHL AND MITTERRAND SEEM AGREED THAT THERE SHOULD BE SOME FORM OF WISE MEN'S REPORT BUT IDEAS ON MODALITIES STILL EVOLVING. THUS CHANCE FOR US TO INFLUENCE OUTCOME.

DETAIL

2. I CALLED ON MME GUIGOU, MITTERRAND'S ADVISER ON EC QUESTIONS, FOR A READ OUT ON THE PRESIDENT'S MEETING WITH KOHL AT EVIAN ON 3 JUNE. SHE SAID THE MEETING HAD CONCENTRATED ON HANOVER, BUT MITTERRAND ALSO OUTLINED HIS CONCERN ABOUT DEBT AND INTENTION TO BRING FORWARD PROPOSALS BEFORE THE TORONTO SUMMIT (SEE MIFT).

HANOVER EUROPEAN COUNCIL

3. KOHL EXPLAINED HIS INTENTION TO AVOID DETAIL AT HANOVER AND TO RETURN TO THE PROPER FUNCTION OF THE EUROPEAN COUNCIL IN LAYING DOWN BROAD GUIDELINES. IT MUST NOT BE A COURT OF APPEAL. HE PROPOSED TO HOLD A TOUR D'HORIZON ON THE ECONOMIC SITUATION: AN IN-DEPTH DISCUSSION OF MONETARY QUESTIONS: A DISCUSSION OF THE SOCIAL DIMENSION, INTRODUCED BY DELORS: AND A STOCKTAKING ON PROGRESS TOWARDS THE COMPLETION OF THE SINGLE MARKET. THE INTENTION HERE WOULD BE TO GET AGREEMENT ON A PROGRAMME WHICH WOULD BIND THE GREEK AND SPANISH PRESIDENCIES AND ENSURE CONTINUED IMPETUS OVER THE NEXT YEAR.

LIBERALISATION OF CAPITAL MOVEMENTS

4. MITTERRAND HAD SET OUT THE FRENCH POSITION FOR KOHL. THEY WERE SOLID ON THE PRINCIPLE OF LIBERALISATION, BUT ON CONDITION THAT THE PROBLEM OF HARMONISATION OF TAXES ON PERSONAL SAVINGS WAS PROPERLY DISCUSSED. THERE WAS A REAL POSSIBILITY OF A FLIGHT OF CAPITAL FOLLOWING LIBERALISATION. FRANCE WOULD NOT MAKE A "SOLUTION" TO THIS PROBLEM, A CONDITION OF AGREEING TO LIBERALISATION, BUT THERE

MUST BE AN ADEQUATE GUARANTEE OF PROGRESS. THE FRENCH COULD NOT ENVISAGE LOWERING TAXES TO MATCH PARTNERS' RATES FOR BOTH FISCAL REASONS (THE NEED FOR BALANCED TREATMENT OF CAPITAL AND INCOME TAXES) AND REASONS OF BUDGETARY COSTS. THE DETAILED FRENCH POSITION ON HOW TO TACKLE THE QUESTION OF TAXES ON SAVINGS WAS STILL BEING WORKED OUT.

MONETARY COOPERATION

5. MME GUIGOU SAID THAT HER CONCLUSION FROM THE MITTERRAND/KOHL MEETING WAS THAT THE ESTABLISHMENT OF AND MANDATE FOR SOME FORM OF WISE MEN'S COMMITTEE WAS BOUND TO BE A MAJOR SUBJECT OF DISCUSSION AT HANOVER. I SAID THAT I WAS SORRY TO HEAR THIS, SINCE WE THOUGHT IT WOULD DISTRACT FROM THE REAL PRIORITIES OF WORKING FOR CLOSER COOPERATION ON MONETARY MATTERS IN THE EXISTING FORA, AND WORKING ON A GREATER USE OF THE ECU. SHE SAID THE PRESIDENT SAW NO INCOMPATIBILITY IN THE TWO APPROACHES. WE SHOULD CERTAINLY BUILD ON RECENT WORK IN THE MONETARY COMMITTEE, ECOFIN AND BY CENTRAL BANK GOVERNORS IN PRACTICAL WAYS. BUT THERE WAS A NEED TO MOVE FORWARD ON THE CONCEPTUAL LEVEL TOO. POSSIBLE APPROACHES RANGED FROM A GENSCHER-TYPE GROUP OF FIVE TO SEVEN WISE MEN, INDEPENDENT OF GOVERNMENTS, TO A GROUP IN WHICH ALL TWELVE MEMBER STATES WERE REPRESENTED, POSSIBLY BY CENTRAL BANK GOVERNORS. THE GERMANS HAD NOT YET DECIDED ON THEIR APPROACH. NOR HAD THE FRENCH, BUT THEIR STRONG PREFERENCE WAS FOR INDEPENDENT PERSONALITIES (I.E. NEITHER OFFICIALS NOR CENTRAL BANK GOVERNORS): HIGHLY QUALIFIED EXPERTS WITH CLOSE CONTACTS WITH GOVERNMENT. CENTRAL BANK GOVERNORS ALREADY MET REGULARLY, AND WOULD PROBABLY NOT SUCCEED IN MOVING MATTERS FORWARD. THE FRENCH ALSO PREFERRED THE IDEA OF A SMALL GROUP. POSSIBLY A GROUP OF INDEPENDENT PERSONALITIES MIGHT BE LINKED IN SOME WAY TO CENTRAL BANKS GOVERNORS.

6. SHE CONCLUDED THAT THE PRESIDENT WAS DETERMINED TO MAKE PROGRESS OVER CLOSER MONETARY COOPERATION - A MATTER OF SURVIVAL FOR EUROPE. THERE WAS THE SAME POLITICAL WILL ON THE GERMAN SIDE. FRANCE KEENLY WANTED TO SEE STERLING ENTER THE ERM. THEY WOULD LOOK FOR WAYS OF MAKING PROGRESS WITH THOSE WHO WERE READY TO DO SO.

FUTURE COMMISSION

7. KOHL HAD TOLD MITTERRAND THAT THERE SHOULD BE AN INFORMAL DISCUSSION AT HANOVER, AS A PRELIMINARY TO FORMAL DECISIONS TOWARDS THE END OF THE YEAR. IT WAS THEIR COMMON DESIRE TO SEE DELORS CONTINUE AS PRESIDENT, ON THE GROUNDS THAT YOU SHOULD NOT CHANGE HORSES HALF WAY TO 1992. I CAST A FLY ABOUT THE SECOND FRENCH COMMISSIONER. MME GUIGOU SAID MITTERRAND WANTED THE SECOND

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COMMISSIONER TO BE FROM THE OPPOSITION PARTIES. BOSSON (MINISTER FOR EUROPE IN THE CHIRAC GOVERNMENT) WAS ONLY ONE POSSIBILITY. MITTERRAND WOULD NO DOUBT CONSULT POLITICAL LEADERS (IE PRESUMABLY GISCARD AND BARRE AS WELL AS HIS OWN SIDE) BEFORE MAKING HIS CHOICE.

SOCIAL DIMENSION

8. MME GUIGOU SAID THE DISCUSSION HAD NOT BEEN DETAILED. FRANCE INTENDED TO MAKE THE EUROPEAN SOCIAL DIMENSION A MAJOR THEME OF THE FRENCH PRESIDENCY IN 1989: NEED FOR A DIALOGUE BETWEEN THE SOCIAL PARTNERS AT COMMUNITY LEVEL ON THE IMPLICATIONS OF 1992 ETC. WHEN I SUGGESTED THAT IT WAS IMPORTANT TO AVOID A REGULATORY APPROACH, SHE AGREED, BUT ADDED THAT THERE WOULD PROBABLY BE A NEED FOR FRAMEWORK DIRECTIVES ON BROAD LINES. DELORS'S EXPERIENCE IN THIS FIELD IN HIS EARLY CAREER (CHABAN-DELMAS'S CABINET) WOULD STAND HIM IN GOOD STEAD.

OTHER INTERNAL MARKET ISSUES

9. I WENT OVER OUR PRIORITIES AS SET OUT IN THE PRIME MINISTER'S LETTER TO CHANCELLOR KOHL. MME GUIGOU AGREED ON THE NEED TO MOVE FORWARD RAPIDLY ON MUTUAL RECOGNITION OF DIPLOMAS, TRANSPORT, PUBLIC PROCUREMENT AND STANDARDS (INCLUDING STANDARDS FOR VEHICLE EMISSIONS FROM SMALL CARS).

COMMENT

10. IT WAS CLEAR FROM MME GUIGOU'S PRESENTATION THAT THE FRENCH AS WELL AS THE GERMANS HAVE NOT YET FULLY WORKED OUT THEIR APPROACH TO THE HANOVER DEBATE ON MONETARY COOPERATION. BUT THE FRENCH HAVE A PREFERENCE FOR A SMALLISH GROUP OF INDEPENDENT "WISE MEN" TO PROVIDE IMPETUS IN WHAT THEY SEE AS A KEY DEBATE ON THE FUTURE SHAPE OF THE COMMUNITY. GIVEN CONTINUING FRENCH AND GERMAN UNCERTAINTIES, A BRITISH INPUT AT POLITICAL LEVEL OVER THE NEXT FEW DAYS COULD HAVE A REAL INFLUENCE. BOTH THE PRIME MINISTER'S DISCUSSIONS HERE ON 10 JUNE, AND THE TORONTO SUMMIT, ARE OPPORTUNITIES TO GET OUR MESSAGE ACROSS - (INCLUDING AT TORONTO TO BEREGOVY).

11. OTTAWA PLEASE PASS UK DELEGATION TO SHERPAS MEETING.

LLEWELLYN SMITH

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CH/EXCHEQUER	
REC.	06 JUN 1988
ACTION	Mr H.P. Evans
COPIES TO	EST SIR G. Little MR T. Lankester MR A.J.C. Edwards MR Peretz MR Mountfield

Foreign and Commonwealth Office

London SW1A 2AH

6 June 1988

Dear Charles

Possible Visit by Former President Giscard d'Estaing

In your letter of 2 May you said it would be difficult for the Prime Minister to see M. Giscard d'Estaing before the Hanover European Council. We have now received the enclosed letter from M. Giscard d'Estaing to the Prime Minister seeking a meeting. The letter implies (but does not explicitly state) that M. Giscard d'Estaing would like a meeting before Hanover. In discussion with our Embassy, Giscard's office have, however, made it absolutely clear that Giscard wants to meet the Prime Minister before Hanover.

As we discussed, and as our Embassy in Paris have already explained to M. Giscard d'Estaing's office, a meeting before the second round of the French elections on 12 June would not be appropriate. A meeting between then and the Hanover European Council is effectively ruled out because of the Prime Minister's other engagements. We therefore recommend that the Prime Minister should reply to M. Giscard d'Estaing explaining that she is unable to see him before the European Council. The letter need not say anything about a possible meeting after the European Council: we can wait to see if Giscard returns to the charge. I enclose a draft.

I am copying this letter to Alex Allan in the Treasury.

Yours ever

(L Parker)
Private Secretary

Paris, le 9 Mai 1988

VALÉRY GISCARD D'ESTAING

Madame le Premier Ministre,

Le Comité pour l'Union Monétaire de l'Europe, coprésidé par l'ancien Chancelier Helmut SCHMIDT et moi-même, a établi un rapport : "Un programme pour l'action", résultant des travaux menés par le Comité depuis Décembre 1986, notamment au cours des cinq réunions plénières qu'il a tenues à Bruxelles (Décembre 1986), Bonn (Mars 1987), Bruxelles (Juin 1987), Rome (Novembre 1987) et Paris (Février 1988). Ce rapport marque l'accord de personnalités de nationalité et de formation différentes soucieuses de faire progresser de manière concrète la construction monétaire européenne.

Le programme pour l'action est fondé sur un petit nombre de propositions concrètes ; création d'une banque centrale européenne ; unification des circuits de l'Ecu public et de l'Ecu privé ; développement des opérations privées en monnaie européenne ; libération des mouvements de capitaux ; convergence des politiques économiques dans leur ensemble. Sa réalisation passe par l'engagement sans délai d'un double mouvement, l'un fondé sur des impulsions gouvernementales, l'autre résultant d'impulsions en provenance des marchés.

Il appartient au Conseil Européen de se saisir de ces questions et de donner une nouvelle impulsion à la construction monétaire européenne.

Aussi, le Chancelier SCHMIDT et moi-même avons transmis, dès le mois d'Avril, ce document au Chancelier KOHL, Président en exercice du Conseil Européen, et à M. DELORS, Président de la Commission des Communautés Européennes.

...

Il apparaît aujourd'hui que les questions de coopération monétaire européenne ont normalement vocation à figurer à l'ordre du jour du prochain Conseil Européen de Hanovre. Je vous prie en conséquence de bien vouloir trouver ci-joint un exemplaire du programme pour l'action du Comité pour l'Union Monétaire de l'Europe.

Compte tenu du poids du Royaume-Uni en Europe, du rôle de la place financière de Londres et du statut de la livre sterling, votre position personnelle sur cet ensemble de sujets revêt une très grande importance. Aussi, serais-je heureux d'avoir, de nouveau, l'occasion de m'en entretenir avec vous, de manière à vous faire part des réflexions conduites par notre Comité dans une perspective plus large de construction de l'Europe et d'affirmation de sa place dans le monde.

Je vous prie de croire, Madame le Premier Ministre, à l'expression de ma considération la plus distinguée,

*et de celle de mon souvenir personnel le
meilleu -*

V. Pisard d'Estvauj

Mrs Margaret THATCHER,
Premier Ministre du Royaume Uni

FOLLOWING IS AN INFORMAL TRANSLATION OF A LETTER TO THE
PRIME MINISTER FROM M. GISCARD d'ESTAING DATED 9 MAY 1988

"The Committee for European Monetary Union, of which former Chancellor Helmut Schmidt and I are co-Chairmen, has just produced a report called "A programme for action". This is a result of the Committee's work since December 1986 and, in particular, of five plenary meetings held in Brussels (December 1986), Bonn (March 1987), Brussels (June 1987), Rome (November 1987) and Paris (February 1988). The report represents the agreed view of a number of eminent people of different nationalities and background. We are all anxious to see concrete progress towards European monetary construction.

Our action programme is based on a small number of concrete proposals: creation of a European Central Bank; joint circulation of the public and private ecu; greater use of European currency in private business transactions; liberalisation of capital movements; greater overall convergence of economic policy. For this to happen requires an immediate commitment to action on two fronts, one based on the initiative of governments, the other on market forces.

It must now fall to the European Council to discuss these issues and to give a fresh direction to European monetary construction.

With this in mind, in April Chancellor Schmidt and I sent our Committee's work to Chancellor Kohl as current President of the European Council and to M. Delors as President of the Commission.

These issues of monetary cooperation are expected to figure on the agenda of the next European Council in Hanover and I am therefore enclosing for you a copy of the action programme prepared by the Committee for European Monetary Union.

Given the influence of the United Kingdom in Europe, London's role as a financial centre and the status of the pound sterling, your own position on these issues is of great importance. I would therefore welcome, once again, the opportunity to talk to you about these issues so that I can tell you about the discussions in our committee and set them in the wider perspective of the development of Europe and the strengthening of Europe's role in the world."

[Courtesy ending]

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference
CAHADC

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:
M. Valéry Giscard d'Estaing

Your Reference

- Top Secret
- Secret
- Confidential
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SUBJECT:

.....In Confidence

Thank you for your letter of 9 May, which I have just received.

CAVEAT.....

I was very glad to have your account of the work being done by your Committee. Many of the issues you have been discussing, such as liberalisation of capital movements, development of the use of the private ecu, and closer cooperation on monetary policy between monetary authorities are under active discussion within the European Community, and I hope for further early progress on them. I am sure the work of your Committee will make an important contribution to the discussion. // It was good of you to suggest that we might meet to talk about these matters. Unfortunately my programme this month is very crowded, for I shall be out of the country at the Economic Summit in Toronto, and subsequently on a visit to Canada, for much of the mid-June period, and ^{will have to} leave for Hanover almost as soon as I get back.

Enclosures—flag(s).....

With best wishes.

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FROM: D L C PERETZ

DATE: 6 June 1988

CHANCELLOR OF THE EXCHEQUER

cc

Economic Secretary
 Sir Peter Middleton
 Sir T Burns
 Sir G Littler
 Mr Lankester
 Mr Scholar
 Mr R I G Allan
 Mr H P Evans
 Mr Mountfield
 Mr Nelson
 Mr Cropper

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERAND: 10 JUNE

Mr Allan's letter of 26 May to Charles Powell at No 10 promised a Treasury brief covering your sub-Saharan debt initiative (on which Mr Mountfield is submitting separately), and monetary co-operation.

2. I attach a draft brief on monetary co-operation.

3. Paragraphs 5 and 6 of Paris Telegram No 558 of 3 June strongly suggest that President Mitterand will raise both:-

(i) the idea of a long term study of a European Central Bank/Common Currency; and

(ii) Sterling's membership of the ERM.

4. On the first, we still do not know what kind of proposal the Germans are likely to make at Hanover. But a number of recent reports suggest they may propose a study by Central Bank Governors. President Mitterand appears to favour a study by a small group of "wise men". This all looks thoroughly tiresome. The attached brief sticks to the line that such a study is premature, and a waste of valuable time and effort; but that if it is to be done it should be supervised by ECOFIN, giving a few arguments against the other options.

Not a good - I have suggested some amendments

OK

AA

not received

in Telegrams folder

At some point we may need to consider a fall back position: which of the other options is worse, and how they might be controlled? For example, one possibility would be a study by Central Bank Governors (we could keep an eye on the Bank of England's contribution), on which the Finance Ministers were then to comment. Or a group of "wise men" with the right composition might be a way of putting the subject to bed for a long time (could we think of a suitable UK nominee?).

6. As for Sterling's membership of the ERM, I have merely included the standard line. I did, however, wonder whether we ought to offer the Prime Minister some additional points to make. For example, she could very easily remind President Mitterand that Sterling is not the only EC currency not to be a full member of the ERM. Apart from the Peseta, Escudo, and Drachma, there is the lira, with its wider band, and BLEU, with their dual exchange rate system.

7. I understand that private offices have agreed that we will send this briefing to the FCO, for inclusion in their omnibus brief, rather than direct to No 10. I suggest that might best be done by means of a Private Secretary letter from Mr Allan, perhaps copied to No 10, to ensure the Foreign Office do not try to make last minute changes^{of substance}. I have shown them a copy of the attached in draft, and have taken on board those official FCO comments that seemed worth including.

don't really want to
associate £ with
these currencies ✓✓

DLCP

D L C PERETZ

EUROPEAN MONETARY INTEGRATION

President Mitterand seems likely to raise this subject. Reports (from Paris) of his meeting with Chancellor Kohl on 3 June suggest he favours the establishment of some kind of independent group of "wise men" to look at the long-term monetary development of Europe, including ideas for a common currency and European Central Bank. He is also likely to urge the UK to join the ERM.

Line to Take

The Prime Minister might like to draw on the following points:

(i) Have been interested to hear of variety of French ideas relating to European economic and monetary union.

~~We favour a workable, step by step approach.~~

(ii) First essential step is to agree quickly on full capital liberalisation, and a timetable for dismantling exchange controls in Europe. Should focus efforts initially on achieving that. Therefore warmly welcome new French Government's removal of remaining exchange controls on corporate sector. Hope this will quickly be followed by abolition of controls on individuals. Scrapping UK exchange controls in 1979 was wholly beneficial. ~~[But]~~ Concerned to hear France may be seeking to make progress on fiscal issues ^a precondition of agreement to draft capital liberalisation Directive in Brussels. Understand ECOFIN had earlier agreed no preconditions should be attached to adoption of Directive. Clearly right. Ending UK exchange controls caused us no serious tax problems. ~~(1)~~

(iii) ^{(iii) [if tax difficulties raised]} ~~[Also agree]~~ there are ^{also} a number of other more technical ideas in the monetary area on which early progress could be made, ~~[including some of our own relating to role of private ecu, where an important market is developing in London.]~~ ^(iv) including a greater use of the ecu and wider cross-holdings of Community currencies & foreign exchange reserves.

(iv) [If asked] Government policy is that sterling will join the ERM when the time is right. Not sensible to try to set a timetable.

(v) Any remit from Hanover should seek to give further impetus to ^{wrote on these points.} ~~steps on which early progress can be made (capital liberalisation; other technical improvements within monetary area).~~ Doubt whether ^{Do not believe} it is sensible to devote time and resources to wider study of more futuristic ideas, such as establishment of a European Central Bank. ~~But if there is to be a study of long-term monetary development of Europe, convinced so long as "wise men" not a good idea. An "academic" study would not be useful. Subject would be best taken forward by those qualified to do so:~~ Finance Ministers themselves in ECOFIN, together with Monetary Committee and Central Bank Governor's Committee.

(vi) [If pressed to agree ^{a study}] No point at all in a study by "wise men". Any further work on monetary co-operation should be taken forward by ✓

BACKGROUNDFrench views on European Monetary Integration

The French are motivated partly by a political desire to be seen to be giving a greater impetus to economic and monetary union; and partly a wish to see what they call greater symmetry in the present system: a less DM-centred zone; and a greater Bundesbank willingness to support the weaker currencies. They favour sterling's membership of the ERM in part because they think ~~(rightly)~~ that would make it less of a DM-centred system. Some of M. Mitterand's advisers argue however that the task of developing the ERM further must now proceed without waiting any longer for the UK.

The ex-French Finance Minister, Balladur, wrote to his EC Finance Minister colleagues in January with a paper on "European Monetary Construction". This proposed various steps including early liberalisation of capital movements, lessening the "asymmetry" within the ERM, adopting a common stance towards non-Community currencies and, finally, the long-term development of a single currency area with a common central institution. French spokesmen have subsequently made it clear that they see the last step as a long-term one; and have stressed the need to concentrate on points of more immediate operational interest. The French appear to wish to proceed by building up a central role for the European Monetary Co-operation Fund. *The new French Finance Minister, Berezgoy, has indicated his support for the thrust of these proposals - though not with the idea of h*

Since M. Balladur put his paper to other Finance Ministers, French officials have made a number of more detailed suggestions. These include intensified co-ordination of economic policies, greater "symmetry" in intervention, the diversification of reserve assets (encouraging the growth of cross-holdings of currencies between central banks over the medium-term) and a timetable for phasing out the "special arrangements" in relation to the EMS exchange rate mechanism.

UK response

(ie a timetable for sterling & other currencies to join & for the Italians to move to narrower margins).

countries ceding sovereignty to a supra-national European Central Bank.

[In answering questions on the UK's attitude towards a European Central Bank and a common European currency at the Conservative

We hope that agreement can be reached a bit at Ecofin on 13 June.

Women's Conference on 24 May, the Chancellor made it plain that it was difficult to see sovereign states, encouraging either development in practice, since this would mean the end of independence in economic policy. He noted that we could develop the common currency we already have (the ecu) and co-operate more fully in Europe but he stressed that it was not worth pursuing visionary ideas, where even those advancing them were not sure of what they meant.

~~The UK believes that~~ ^{Our} priority ^{has been to press for the removal of} ~~should be given to the immediate task of removing~~ all remaining exchange controls in the Community. But there are other, more technical, issues ^{where we believe} ~~on which~~ some progress ^{can} ~~could also~~ be made. We, and others, support the French proposal for the removal of obstacles which deter Member States from holding other Community currencies in their reserves. (The Germans seek to limit intervention by other central banks in DM, and refuse to hold anything other than ^{dollars} in their own reserves.) We ^{also support moves to} ~~would~~ encourage Member States to maintain greater holdings of ~~private ecus in their official foreign currency reserves and to make greater use of the ecu as an intervention currency, and would also encourage those individual Member States who need to borrow in foreign currency to supplement their reserves to denominate a greater proportion of their borrowing in ecus. The same holds for Community borrowing and borrowing by the European Investment Bank.~~ ¹⁸⁰⁰

^{The Chancellor has indicated, WPA at the informal Ecofin last month, and publicly,}
~~However, we do not suggest the Prime Minister discusses any of this detail with President Mitterrand.~~

^{that the UK does not believe it is worth pursuing the more "visionary" ideas of a European Central Bank & a common}

Capital liberalisation

~~The Community is near to agreement on a draft Directive which would abolish all controls on capital movements within the EC. As indicated above, we see this as a priority. The French have also indicated that they attach importance to full liberalisation and M. Beregevoy, the new Finance Minister, has told the Chancellor that he wants to remove the remaining French exchange controls swiftly.~~

(see next page)

currency - especially where advocates advancing them are not sure what they mean?

However, the French have also expressed [deep] disquiet about the increased scope for tax evasion which they believe will follow from abolition. If this subject comes up it might be useful for the Prime Minister to repeat ^{our belief} the assurance we have already given, from our own experience with abolishing ^{controls} controls, that the French fears are groundless. They have ^{French} therefore been pressing within the Community for a harmonised withholding tax on savings. We have naturally opposed this (not least because it will simply drive business offshore) and ECOFIN had earlier accepted that while ^{discussion should continue} progress needed to be made on this issue ^{agreement on it} it should not be regarded as a precondition for the adoption of the Directive. However, the latest signs are that the French ^{may be} are seeking to impose just such a condition.

The height of concern recently shown by the French on this issue may be linked to reports that the Socialist manifesto commitment is to introduction of a substantial wealth tax.

new Government
 The French ^{has} made encouraging noises about agreeing to move swiftly to end ^{the remaining French} exchange controls. Indeed the informal Ecofin was moved from 6 June to 13 June specifically so that French agreement to a new Community directive on this could fall after the French assembly election.

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FM PARIS

TO IMMEDIATE FCO

TELNO 566

OF 061426Z JUNE 88

INFO PRIORITY EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO

INFO SAVING HMCBS IN FRANCE

MY TELNO 555: FRENCH PARLIAMENTARY ELECTIONS: FIRST ROUND RESULTS.

SUMMARY

1. THE SOCIALISTS (PS) HAVE DONE LESS WELL THAN THEY HOPED, BUT ARE STILL IN SIGHT OF AN OVERALL MAJORITY. THE RIGHT HAVE DONE BETTER THAN EXPECTED, PARTICULARLY THE UDF. THE COMMUNISTS (PCF) HAVE REGAINED A LITTLE LOST GROUND AND WILL WIN A FEW SEATS. THE FRONT NATIONAL HAS DONE RELATIVELY BADLY AND MAY WIN NONE: BUT IT WILL CONTINUE TO COMPLICATE THE CALCULATIONS OF THE TRADITIONAL RIGHT. THE RESULTS SHOW THAT MITTERRAND'S VICTORY WAS A PERSONAL ONE, NOT A VICTORY FOR THE LEFT, AND THAT FRANCE WANTS MODERATE GOVERNMENT AROUND THE CENTRE.

DETAIL

2. WITH MOST OF THE VOTES COUNTED, THE FIRST ROUND RESULTS ARE:

COMMUNISTS (PCF)	: 11.3 PER CENT
SOCIALISTS AND ALLIES	: 37.5 PER CENT
URC (UDF AND RPR COMBINED)	: 40.4 PER CENT
FRONT NATIONAL (FN)	: 9.7 PER CENT

THE ABSTENTION RATE WAS 34.2 PER CENT, THE HIGHEST IN ANY LEGISLATIVE ELECTIONS IN THE HISTORY OF THE FIFTH REPUBLIC. THIS IS PROBABLY EXPLAINED BY A PUBLIC WEARINESS WITH ELECTIONEERING, AND BY A WIDESPREAD ASSUMPTION THAT THE RESULT WAS A FOREGONE CONCLUSION.

THE SOCIALISTS

3. THE RESULT IS A DISAPPOINTMENT FOR THE SOCIALISTS. OPINION POLLS PREDICTED THAT THEY WOULD GET OVER 40 PER CENT, AND SECURE A LARGE MAJORITY. INSTEAD THEY ARE 3 PER CENT BEHIND THE COMBINED UDF AND RPR TOTAL. PART OF THE EXPLANATION MAY BE THAT THE EXPECTATION OF A SWEEPING VICTORY PERSUADED SOME SOCIALIST SUPPORTERS THAT THEY NEED NOT BOTHER TO VOTE, WHILE CONVINCING RIGHT-WING VOTERS THAT THEY MUST. BUT THE ELECTORATE ALSO SEEMS TO HAVE BEEN SIGNALLING THAT IT WANTS A ROUGH BALANCE BETWEEN LEFT AND RIGHT, AND IS WARY OF GIVING

THE SOCIALIST PARTY THE SORT OF MAJORITY THAT MIGHT TEMPT IT TO BECOME MORE SECTARIAN AGAIN IF THE OPENING TO THE CENTRE (OUVERTURE) PROVES DIFFICULT. NEVERTHELESS, DESPITE DOING LESS WELL THAN THEY HOPED, THE PS HAVE EQUALLED THEIR RECORD 1981 SCORE, AND COMPUTER PROJECTIONS SUGGEST THAT (BENEFITTING FROM THE WAY IN WHICH CONSTITUENCY LINES WERE REDRAWN AFTER THE 1986 ELECTION) THEY WILL EMERGE WITH BETWEEN 290 - 320 SEATS AFTER THE SECOND ROUND. THIS WOULD GIVE THEM A NARROW MAJORITY OF 3 AT ONE END OF THE SCALE AND A COMFORTABLE ONE OF 63 AT THE OTHER.

THE URC.

4. FOR THE UDF AND RPR COMBINED IN THE UNION DU RASSEMBLEMENT ET DU CENTRE (URC), THE RESULTS ARE A SURPRISE AND A TONIC. THEY WERE BRACED FOR A HEAVY DEFEAT AND HAVE INSTEAD POLLED SLIGHTLY MORE VOTES THAN THE PS. A WEEK AGO THEY WERE ANXIOUS THAT THEY MIGHT NOT GET 200 SEATS: NOW COMPUTER PROJECTIONS SUGGEST THAT THEY WILL SECURE 250 - 280. THERE IS EVEN AN OUTSIDE CHANCE THAT THEY COULD BEAT THE SOCIALISTS, ALTHOUGH THIS WOULD REQUIRE AN UNLIKELY CHANGE IN VOTING PATTERNS (INCLUDING THE ABSTENTION RATE) IN THE SECOND ROUND. A NOTABLE FEATURE OF THE URC'S PERFORMANCE HAS BEEN THE STRONG SHOWING OF THE UDF. THEIR CANDIDATES SECURED 18.5 PER CENT, LESS THAN A POINT BEHIND THE RPR ON 19.2 PER CENT. THIS IS A BOOST TO THE MODERATE CENTRE-RIGHT, AND PUBLIC ENDORSEMENT OF THOSE WITHIN THE RIGHT WHO ARE MOST RECEPTIVE TO THE IDEA OF OUVERTURE. THIS COULD HAVE AN IMPORTANT BEARING IN DETERMINING THE FUTURE SHAPE OF FRENCH POLITICS.

THE PCF

5. THE COMMUNISTS HAVE IMPROVED ON LAJOINIE'S FIRST ROUND SCORE IN THE PRESIDENTIAL ELECTIONS BY OVER 4.5 PER CENT, RECORDING THEIR BEST NATIONAL RESULT SINCE THE EUROPEAN ELECTIONS IN 1984. COMPUTER PREDICTIONS SUGGEST THAT THEY MAY EMERGE WITH UP TO A DOZEN SEATS AFTER NEXT WEEK-END'S SECOND ROUND. THEY EXPECTED AN IMPROVEMENT ON THEIR PRESIDENTIAL PERFORMANCE BUT ARE BLINKING IN SOME DISBELIEF AT ITS SIZE. THEY ARE ALSO DELIGHTED TO HAVE BEATEN THE FN WHICH, AFTER LE PEN'S PERFORMANCE IN THE PRESIDENTIAL ELECTIONS, HAD CLAIMED TO HAVE REPLACED THEM AS THE FOURTH LARGEST POLITICAL FORMATION IN FRANCE. THE PCF'S SCORE IS PROBABLY EXPLAINED BY THE LOCAL POPULARITY OF SOME OF THEIR CANDIDATES, AND BY MITTERRAND'S CENTRIST STRATEGY WHICH HAS GIVEN THEM SPACE ON THE POLITICAL LEFT. NEVERTHELESS, THEIR RECOVERY IS RELATIVE: THEY HAVE DONE 5 PER CENT WORSE THAN IN 1981 AND WILL FALL FAR SHORT OF THE 30 SEATS NEEDED FOR PARLIAMENTARY GROUP STATUS. FOR THE MOMENT THEIR DECLINE HAS BEEN HALTED, BUT THIS RESULT DOES NOT NECESSARILY SIGNAL A REAL

RECOVERY IN THEIR FORTUNES.

THE FN

6. FOR THE FN THE OUTCOME IS A SETBACK. WITH 9.7 PER CENT THEY ARE DOWN NEARLY 5 PER CENT COMPARED WITH LE PEN'S SCORE IN THE FIRST ROUND OF THE PRESIDENTIAL ELECTIONS, AND BACK AT THE LEVEL OF THE 1986 LEGISLATIVE ELECTIONS. THEY ARE UNLIKELY TO WIN MORE THAN 2-3 SEATS IN THE SECOND ROUND AND COULD EMERGE WITH NONE. LE PEN AND HIS LIEUTENANTS DID WELL IN MARSEILLES (LE PEN'S SCORE WAS 34 PER CENT IN HIS OWN CONSTITUENCY) BUT NOT WELL ENOUGH TO MAKE THEIR ELECTION LIKELY. LE PEN MAY, HOWEVER, CONCLUDE THAT THE FN'S SHOWING WAS GOOD ENOUGH TO ENCOURAGE HIM TO STAND FOR MAYOR OF MARSEILLES NEXT YEAR.

7. WHATEVER THE FN'S FINAL TALLY IN THESE ELECTIONS, IT WOULD BE RASH TO ASSUME THAT THEIR BUBBLE HAS BURST. LE PEN DID SPECTACULARLY WELL IN THE PRESIDENTIAL ELECTIONS BECAUSE HE PROVIDED A FOCUS FOR PROTEST AT NATIONAL LEVEL. THE FN WAS ALWAYS LIKELY TO SLIP BACK IN PARLIAMENTARY ELECTIONS WHEN VOTERS ARE CHOOSING THEIR DEPUTY. LE PEN WILL HOWEVER CONTINUE TO COMPLICATE THE CALCULATIONS OF THE TRADITIONAL RIGHT, AND WILL CAPTURE SEATS FROM THEM IN THE LOCAL ELECTIONS THIS AUTUMN AND MUNICIPAL ELECTIONS NEXT SPRING.

8. THE PARTIES ARE NOW ENGAGED IN INTENSIVE NEGOTIATIONS FOR THE SECOND ROUND. THE PCF SEEM LIKELY TO STAND DOWN IN CONSTITUENCIES WHERE PS CANDIDATES ARE BETTER PLACED, AND VICE VERSA. ON THE RIGHT THERE WILL BE AN ARGUMENT BETWEEN THOSE WHO WISH TO STRIKE A SIMILAR DEAL WITH LE PEN AND THOSE (PARTICULARLY UDF CENTRISTS) WHO DO NOT. SUCH DEALS WILL HAVE AN IMPORTANT BEARING ON THE FINAL RESULT. SOME FIFTY FN CANDIDATES DID WELL ENOUGH IN THE FIRST ROUND TO QUALIFY FOR THE SECOND, WHICH GIVES LE PEN CONSIDERABLE SCOPE TO EMBARRASS THE URC AND PREJUDICE ITS PROSPECTS.

CONCLUSION

9. THE FIRST ROUND RESULT THROWS FURTHER LIGHT ON THE PRESIDENTIAL ELECTION. MITTERRAND'S COMMANDING VICTORY APPEARS MORE THAN EVER TO BE A PERSONAL ONE, RATHER THAN THE VICTORY OF THE LEFT. HIS ADVOCACY OF MODERATION, TOLERANCE AND OUVERTURE WAS IN LINE WITH THE MOOD OF THE ELECTORATE. HE WON BECAUSE HE PLAYED DOWN HIS SOCIALIST CREDENTIALS AND OCCUPIED THE CENTRE GROUND.

10. IN THE EYES OF THE ELECTORATE THE PS HAS BEEN LESS CONVINCING IN MOVING TO THE CENTRE. THE PARTY WILL PROBABLY GET AN OVERALL MAJORITY AFTER THE SECOND ROUND ON 12 JUNE, NOT LEAST BECAUSE THERE IS LITTLE OBVIOUS ENTHUSIASM FOR A RETURN TO COHABITATION WHICH IS

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WHAT A URC VICTORY WOULD IMPLY. BUT IF IT DOES, IT WILL BE A
MAJORITY CAUTIOUSLY GIVEN WITH THE CLEAR WARNING THAT THE FRENCH
WANT MODERATE GOVERNMENT AROUND THE CENTRE.

FERGUSSON

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ADDITIONAL 2

ASSESSMENTS STAFF,
CABINET OFFICE MR P J WESTON CABINET OFFICE

NNNN

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cc: Economic Secretary
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Lankester
 Mr Peretz
 Mr Scholar
 Mr R I G Allen
 Mr H P Evans
 Mr Mountfield
 Mr Nelson
 Mr Cropper

Treasury Chambers, Parliament Street.
 01-270 3000

7 June 1988

L Parker Esq
 PS/Secretary of State
 FCO
 King Charles Street
 LONDON SW1

Dear Lyn

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: 10 JUNE

I attach a brief on European monetary integration. This has been approved by the Chancellor. We agreed to hold up the brief on the Chancellor's sub-Saharan debt initiative until we have seen the French proposals.

I am copying this letter to Charles Powell (No.10).

Yours ever

J M G TAYLOR

EUROPEAN MONETARY INTEGRATION

President Mitterand seems likely to raise this subject. Reports (from Paris) of his meeting with Chancellor Kohl on 3 June suggest he favours the establishment of some kind of independent group of "wise men" to look at the long-term monetary development of Europe, including ideas for a common currency and European Central Bank. He is also likely to urge the UK to join the ERM.

Line to Take

The Prime Minister might like to draw on the following points:

- (i) Have been interested to hear of variety of French ideas relating to European economic and monetary union.
- (ii) First essential step is to agree quickly on full capital liberalisation, and a timetable for dismantling exchange controls in Europe. Should focus efforts initially on achieving that. Therefore warmly welcome new French Government's removal of remaining exchange controls on corporate sector. Hope this will quickly be followed by abolition of controls on individuals. Scrapping UK exchange controls in 1979 was wholly beneficial.
- (iii) [If tax difficulties raised] Concerned to hear France may be seeking to make progress on fiscal issues a precondition of agreement to draft capital liberalisation Directive in Brussels. Understand ECOFIN had earlier agreed no preconditions should be attached to adoption of Directive. Clearly right. Ending UK exchange controls caused us no serious tax problems.
- (iv) There are also a number of other more technical ideas in the monetary area on which early progress could be made, including a greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves.

(v) Any remit from Hanover should seek to give further impetus to work on these points. Do not believe it is sensible to devote time and resources to wider study of more futuristic ideas, such as establishment of a European Central Bank, which in any event could not be a true Central Bank so long as nation states exist.

(vi) [If pressed to agree a study] No point at all in a study by "wise men". Any further work on monetary co-operation should be taken forward by Finance Ministers themselves in ECOFIN, together with Monetary Committee and Central Bank Governor's Committee.

(vii) [If asked] Government policy is that sterling will join the ERM when the time is right. Not sensible to try to set a timetable.

BACKGROUND**French views on European Monetary Integration**

The French are motivated partly by a political desire to be seen to be giving a greater impetus to economic and monetary union; and partly a wish to see what they call greater symmetry in the present system: a less DM-centred zone; and a greater Bundesbank willingness to support the weaker currencies. They favour sterling's membership of the ERM in part because they think that would make it less of a DM-centred system. Some of M.Mitterand's advisers argue however that the task of developing the ERM further must now proceed without waiting any longer for the UK.

The ex-French Finance Minister, Balladur, wrote to his EC Finance Minister colleagues in January with a paper on "European Monetary Construction". This proposed various steps including early liberalisation of capital movements, lessening the "asymmetry" within the ERM, adopting a common stance towards non-Community currencies and, finally, the long-term development of a single currency area with a common central institution. French spokesmen have subsequently made it clear that they see the last step as a long-term one; and have stressed the need to concentrate on points of more immediate operational interest. The French appear to wish to proceed by building up a central role for the European Monetary Co-operation Fund. The new French Finance Minister, Bérégovoy, has indicated his support for the thrust of these proposals - though not with the idea of countries ceding sovereignty to a supra-national European Central Bank.

Since M. Balladur put his paper to other Finance Ministers, French officials have made a number of more detailed suggestions. These include intensified co-ordination of economic policies, greater "symmetry" in intervention, the diversification of reserve assets (encouraging the growth of cross-holdings of currencies between central banks over the medium-term) and a timetable for phasing out the "special arrangements" in relation to the EMS exchange rate mechanism (ie a timetable for sterling and other currencies to join and for the Italians to move to narrower margins).

response

Our priority has been to press for the removal of all remaining exchange controls in the Community. We hope that agreement can be reached on this at ECOFIN on 13 June. But there are other, more technical, issues where we believe some progress can be made. We, and others, support the French proposal for the removal of obstacles which deter Member States from holding other Community currencies in their reserves. (The Germans seek to limit intervention by other central banks in DM, and refuse to hold anything other than dollars in their own reserves.) We also support moves to encourage Member States to maintain greater holdings of private ecus in their official foreign currency reserves and to make greater use of the ecu as an intervention currency.

The Chancellor has indicated, both at the informal ECOFIN last month, and publicly, that the UK does not believe it is worth pursuing the more "visionary" ideas of a European Central Bank and a Common currency - especially when even those advancing them are not sure what they mean.

Capital liberalisation

The new French Government has made encouraging noises about agreeing to move swiftly to end the remaining French exchange controls. Indeed the informal ECOFIN was moved from 6 June to 13 June specifically so that French agreement to a new Community directive on this would fall after the French assembly election.

However, the French have also expressed disquiet about the increased scope for tax evasion which they believe will follow from abolition. If this subject comes up it might be useful for the Prime Minister to repeat our belief from our own experience with abolishing exchange controls, that the French fears are groundless. The French have been pressing within the Community for a harmonised withholding tax on savings. We have naturally opposed this (not least because it will simply drive business away from Europe altogether) and ECOFIN had earlier accepted that while discussion should continue on this issue agreement on it should not be

garded as a precondition for the adoption of the Directive. However, the latest signs are that the French may be seeking to impose just such a condition. The heightened concern recently shown by the French on this issue may be linked to President Mitterand's manifesto commitment to the introduction of a substantial wealth tax.



cc: Sir 2/6 Little.

[Handwritten signature]

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 June 1988

M H Jay, Esq
c/o FCO (British Embassy - Paris)
King Charles Street
London SW1

John Michael

POSSIBLE BILATERAL WITH M. BEREGOVY

You reported by telegram (Paris telno 544) Noyer's suggestion of a bilateral meeting between Beregovoy and the Chancellor before the Summer break.

The Chancellor discussed this with Sir Ewen Ferguson last week. He is not at this stage disposed to offer a bilateral to M. Beregovoy. He would prefer to take stock of progress at ECOFIN, and at Hanover and Toronto before reaching a final view on whether it would be worth holding one in July.

Yours ever

[Handwritten signature]

J M G TAYLOR
Private Secretary

DWP

FROM: MRS S THOMSON

DATE: 7 JUNE 1988

~~MR~~ MOUNTFIELDPRIME MINISTER'S MEETING WITH PRESIDENT MITTERAND

I attach a brief on Sub-Saharan African Debt for the Prime Minister's meeting with President Mitterand.

x | 2. I apologise for the delayed arrival of this brief. The situation in the first floor typing pool grows even more farcical. This morning they had one lady, who left at 12.30pm, who was able to operate office power. She was consequently unable to cope with her workload and my simple alteration to this brief have taken all morning to effect.

MRS S THOMSON

PS/Chancellor

cc Sir G Lither
Mr Lanhester
Mr Evans
Mr Bottrill
Mr Drummond FCO
Mrs Kerry - re X!

I am sorry this has been delayed, for the reasons given above.
I am content. If the Chancellor agrees, FCO (who are charged by No.10 with co-ordinating briefs for this meeting) will submit it.

R
7.6



Ch. / This brief has been prepared in consultation with the FCO. (I understand from Mr Wicks that the French may be circulating, imminently, some detailed proposals. If so, we shall need to revise this brief. But it is probably worth putting it round in the meantime.

25
7/6

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HM TREASURY

PRIME MINISTER'S MEETING WITH M MITTERAND

10th JUNE 1988

SUB-SAHARAN AFRICA: CHANCELLOR'S INITIATIVE

Line to take

Eager to see real progress at Summit towards helping the poorest, most debt-distressed countries. Reductions in interest rates - as proposed by Chancellor - the most positive way to help such countries. US proposal does not go far enough and does not ensure burden-sharing between creditors. Interested to hear French ideas.

Background

The Chancellor's initiative was announced in April 1987. He proposed that very poor countries - those with per capita incomes of less than \$425 year - who were carrying out adjustment programmes approved normally by the IMF and the World Bank should be helped by the conversion of existing aid loans into grants (Retrospective Terms Adjustment or RTA), by rescheduling their debts over longer periods, and by cutting interest rates to prevent the compounding of debt. There is not much scope for further RTA - the UK did this for most countries before 1979. Longer grace and rescheduling periods (over 15 and 20 years) have been allowed to 10 countries in the Paris Club. Little progress, however, has been made so far in reducing interest rates, largely because of US opposition.

The US line is that they are prevented by 'political, legal and budgetary constraints' from reducing interest rates. The US Treasury Secretary, Mr James Baker, confirmed this at the ^{African} ~~Organisation of Development Bank~~ African Unity Congress in Addis Abbaba on 2 June but announced that the US were "willing to extend the range of options within the Paris Club": some countries could offer concessional interest rates while others could reschedule over a longer period.

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This is an idea that comes from the Canadians, who were hoping to produce it as a compromise at the Summit. It assumes that those creditors who reduce interest rates will be compensated for the reduction by the reduction in risk which is assumed to come from their earlier repayment period. This idea has some attractions. The US will accept it and the faint similarity to the "exit bond" mechanism used in commercial bank rescheduling gives it a fashionable air which could add to its acceptability at the Summit. There are however several snags. The US will accept it precisely because it will cost them nothing. Rescheduling over longer periods - even 20 or 25 years - would not lead to a reduction in the net present value of claims equivalent to that suffered by creditors who reduce their interest rates. So there would not be burden-sharing among creditors. A second problem is that any moves to accelerate repayments to the group which reduces interest rates could mean increased payments for the debtor before it is in a position to pay - in other words, the scheme would be self defeating.

The French are working on an initiative which they have said is consistent with the Chancellor's. It would cover R'TA and interest rate relief. M Mitterand in his pre-election 'Letter to the Nation' spoke of the need to "cancel the debts of the very poorest and to alleviate the problems of the others". They are reported to want to circulate their proposals to the G7 before Toronto but not to have worked out the details. It will be helpful to discover what these are, and what they think of the Baker speech.

Other countries have also shown signs of movement. The Germans are considering more R'TA in tranches related to IMF or World Bank conditionality. The Japanese will still look for equivalent measures and have said that they have money available if this can be agreed.



CH/EXCHEQUER	
REC.	07 JUN 1988
ACTION	Mr. H. P. Evans
COPIES TO	EST. SIR G. Littler
	Mr Lankester
	MR R. I. G. Allen
	MR Peretz MR Mountfield
	7 June 1988

7/6

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Prop

**POSSIBLE VISIT BY FORMER
PRESIDENT GISCARD D'ESTAING**

Thank you for your letter of 6 June about M. Giscard's request to see the Prime Minister before Hanover. The Prime Minister has signed a letter to M. Giscard explaining that this simply is not possible. I enclose the letter and should be grateful if you could arrange for its delivery.

I am copying this letter to Alex Allan (H M Treasury).

C D POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

7 June 1988

Dear Monsieur Giscard,

Thank you for your letter of 9 May, which I have just received.

I was very glad to have your account of the work being done by your Committee. Many of the issues you have been discussing, such as liberalisation of capital movements, development of the use of the private ecu, and closer co-operation on monetary policy between monetary authorities are under active discussion within the European Community, and I hope for further early progress on them. I am sure the work of your Committee will make an important contribution to the discussion.

It was good of you to suggest that we might meet to talk about these matters. Unfortunately my programme this month is very crowded, for I shall be out of the country at the Economic Summit in Toronto, and subsequently on a visit to Canada, for much of the mid-June period, and will have to leave for Hanover almost as soon as I get back.

With best wishes,

Warm regards,

Yours sincerely,

Raymond Barber

His Excellency Monsieur Valery Giscard d'Estaing, G.C.B.

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TO IMMEDIATE FCO

TELNO 572

OF 071700Z JUN 88

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MADRID PLEASE COPY TO PS/SECRETARY OF STATE.

MIPT: PRIME MINISTER'S VISIT: MAIN POINTS FOR DISCUSSION

SUMMARY

1. MITTERRAND AND ROCARD BOTH LIKELY TO BE INTERESTED IN EAST/WEST RELATIONS FOLLOWING THE REAGAN/GORBACHEV MEETING, THE TORONTO AND HANOVER MEETINGS, AND BILATERAL QUESTIONS. COUNTER-TERRORISM WORTH MENTIONING.

DETAIL

2. I CALLED TODAY ON HUCHON (ROCARD'S DIRECTEUR DE CABINET), ROCARD HAVING CANCELLED AT THE LAST MINUTE BECAUSE OF ELECTORAL PRE-OCCUPATIONS, TO DISCUSS THE PRIME MINISTER'S VISIT. THIS CALL, TOGETHER WITH THE MINISTER'S CALL ON THE ELYSEE ON JUNE 3 (PARIS TELNO 558), SUGGESTS THAT MITTERRAND AND ROCARD WILL EACH WANT TO CONCENTRATE ON 4 MAIN SUBJECTS: EAST/WEST RELATIONS FOLLOWING THE REAGAN GORBACHEV SUMMIT, THE TORONTO AND HANOVER MEETING AND BILATERAL QUESTIONS.

2. THE BALANCE OF RESPONSIBILITY BETWEEN MITTERRAND AND ROCARD FOR FOREIGN POLICY REMAINS UNCLEAR. HUCHON TOLD ME TODAY THAT THE PRESIDENT WOULD TAKE A STRATEGIC OVERVIEW OF ALL GOVERNMENT POLICIES, WITH PARTICULAR CONCERN FOR FOREIGN AFFAIRS AND DEFENCE, IN LINE WITH HIS CONSTITUTIONAL RESPONSIBILITIES. UNDER THAT UMBRELLA HE WOULD CONCERN HIMSELF WITH EUROPEAN AFFAIRS SO FAR AS MAJOR POLICIES AND FUNDAMENTIAL DECISIONS ON EUROPEAN CONSTRUCTION WERE CONCERNED. FOR THE REST HE APPEARED FIRMLY TO WISH TO DELEGATE THE RESPONSIBILITY FOR RUNNING THE GOVERNMENT TO THE PRIME MINISTER SINCE EVEN WITHIN THE SPECIAL AREAS OF FOREIGN AFFAIRS AND DEFENCE THERE WERE MANY ISSUES REQUIRING DETAILED GOVERNMENTAL DECISION. THE PRIME MINISTER'S MEETINGS WITH MITTERRAND AND ROCARD ARE THEREFORE LIKELY TO COVER BROADLY THE SAME AGENDA.

EAST/WEST

3. MITTERRAND AND ROCARD WILL BOTH BE KEEN TO GET A FIRST-HAND IMPRESSION FROM MRS THATCHER OF THE REAGAN/GORBACHEV MEETINGS IN THE

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LIGHT OF PRESIDENT REAGAN'S VISIT TO LONDON AND TO ALLOW THAT TO LEAD INTO AN ANALYSIS OF THE PRESENT STATE OF EAST/WEST RELATIONS.

TORONTO ECONOMIC SUMMIT

4. MITTERRAND WILL BE ACCOMPANIED TO TORONTO BY DUMAS (FOREIGN MINISTER) AND BEREGOVY (FINANCE MINISTER). HUCHON CONFIRMED THIS MORNING THAT ROCARD WILL NOT (NOT) ATTEND. MITTERRAND'S PRIORITIES AT THE SUMMIT WILL BE AGRICULTURE AND DEBT. HE WILL BE DETERMINED TO ENSURE THAT AGRICULTURE IS NOT GIVEN ANY PRIORITY TREATMENT AT THE GATT MID-TERM MEETING IN DECEMBER, AND EQUALLY DETERMINED THAT FULL CREDIT BE GIVEN TO THE EC FOR THE EFFORTS MADE TO CONTAIN AGRICULTURAL SPENDING. ROCARD WILL SHARE THESE VIEWS. HUCHON UNDERLINED TO ME THIS MORNING THE SENSITIVITY OF AGRICULTURE BOTH IN THE GATT AND IN THE EC CONTEXT: ROCARD WAS INCREASINGLY CONCERNED AT THE POTENTIALLY NEGATIVE IMPACT ON FRENCH PUBLIC OPINION OF THE DIFFICULTIES OF ABSORBING RECENT REFORMS OF AGRICULTURAL POLICY IN THE COMMUNITY. IT WAS ALSO CLEAR THAT THE IMPACT OF CAP REFORM COULD MAKE IT MORE DIFFICULT TO PERSUADE PUBLIC OPINION TO ACCEPT THE COMPLEX OF DECISIONS NEEDED IN THE RUN UP TO 1992. ROCARD WOULD BE SUGGESTING THAT THE COMMUNITY WOULD PROCEED MORE SLOWLY ON AGRICULTURAL REFORM.

5. ON DEBT, THE SIGNS ARE THAT MITTERRAND WILL COME FORWARD WITH IDEAS FOR EASING THE BURDEN ON THE POOREST COUNTRIES, BUT THAT THE DETAILS HAVE NOT YET BEEN WORKED OUT. WE HAVE STRESSED THE IMPORTANCE OF CONSISTENCY BETWEEN FRENCH IDEAS AND THE CHANCELLOR'S INITIATIVE, AND THE NEED FOR CONSULTATION.

6. THE PRIME MINISTER'S MEETINGS WILL PROVIDE AN OPPORTUNITY TO EMPHASISE TO BOTH MITTERRAND AND ROCARD THE IMPORTANCE WE ATTACHE TO REAL PROGRESS (ON AGRICULTURE AND OTHER SUBJECTS) IN THE GATT URUGUAY ROUND, AND TO THE NEED FOR CONSISTENCY BETWEEN FRENCH AND BRITISH IDEAS ON DEBT.

HANOVER EUROPEAN COUNCIL

7. HUCHON TOLD ME TODAY THAT A FINAL DECISION ON ATTENDANCE AT HANOVER HAD NOT YET BEEN TAKEN, BUT THAT ROCARD WOULD PROBABLY NOT (NOT) GO. AT HANOVER, MITTERRAND WILL WANT A REAL IMPULSE TO BE GIVEN TO THE COMPLETION OF THE SINGLE MARKET. BUT HE WILL SEE THIS IN A BROADER SENSE THAN WE DO, TO INCLUDE PROGRESS ON MONETARY COOPERATION. LIKE KOHL, HE WILL WANT TO AVOID DETAILED DISCUSSION OF DIRECTIVES. THE PRIME MINISTER'S MEETING WILL PROVIDE AN OPPORTUNITY TO UNDERLINE OUR COMMON INTEREST IN MAPPING OUT AT HANOVER THE PRACTICAL STEPS NEEDED TO MOVE FORWARD TOWARDS 1992 OVER THE NEXT

YEAR, SO THAT THE MOMENTUM IS MAINTAINED BETWEEN HANOVER AND THE FRENCH PRESIDENCY IN THE SENCOND HALF OF 1989. RECENT CONVERSATIONS HERE AND IN BONN SUGGEST THAT THE FRENCH AND GERMANS - WHO WILL NO DOUBT TRY TO MAKE THE RUNNING AT HANOVER - ARE NOT YET AGREED ON HOW WORK ON MONETARY COOPERATION MIGHT BE TAKEN FORWARD. THERE WILL THUS BE A CHANCE TO FEED IN OUR OWN IDEAS.

BILATERAL DEFENCE RELATIONSHIP

8. MITTERRAND AND ROCARD WILL BE KEEN THAT DEFENCE SHOULD BE ONE AREA FOR CONTINUING IMPROVEMENT IN UK-FRENCH RELATIONS. IT REAMINS A MATTER OF DOGMA ACROSS THE POLITICAL SPECTRUM THAT A RETURN TO THE INTERGRATED COMMAND STRUCTURE OF NATO IS NOT A POLITICAL POSSIBILITY, THOUGH MITTERRAND'S ATTENDENCE AT THE NATO SUMMIT WAS A SIGNIFICANT PUBLIC ACT AND THERE ARE NUMEROUS EXAMPLES OF FRENCH WILLINGNESS TO CREEP UNOBTRUSIVELY CLOSER TO NATO. THEY WILL BE LOOKING TO SEE WHAT CAN BE DONE TO BUILD ON THE PRIME MINISTER'S EXCHANGE WITH MITTERRAND. THEY WILL BE HOPEFUL BUT NOT CONFIDENT OF THE POSSIBILITY OF PROGRESS IN THE SENSITIVE AREA OF NUCLEAR EXHCNAGES, AND WELL AWARE OF THE ADVANTAGE OF OUR CONTINUING TO WORK TOGETHER ON RATIONALISING EQUIPMENT COLLOBORATION. THEY WILL BE AWARE OF MR YOUNGER'S POSITIVE PRELIMINARY MEETING WITH M. CHEVENEMENT AT CAEN ON 6 JUNE - WITH A SUBSTANTIVE MEETING IN LINE FOR 7 JULY.

COUNTER-TERRORISM

9. IT MIGHT BE WORTH CONSIDERING A REFERENCE TO THE EXCELLENT PRACTICAL COOPERATION WE HAVE HAD FROM THE FRENCH (EG EKSUND) OVER THE PAST TWO YEARS, EXPRESSING THE HOPE THAT THIS WILL CONTINUE. THE SOCIALIST GOVERNMENT PRE-1986 (WITH JOXE AS INTERIOR MINISTER) WAS NOT (NOT) AS SOLID, ESPECIALLY ON COUNTERING IRA ACTIVITY, AS CHIRAC/PASQUA, ALTHOUGH MR HURD HAD A USEFUL INFORMAL MEETING WITH M. JOXE ON 21 MAY. A FORTHCOMING RESPONSE FROM ROCARD TO THE PRIME MINISTER WOULD BE USEFUL TOOL IN THE FUTURE.

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PRIME MINISTER'S VISIT ON 10 JUNE: THE FRENCH SCENE

SUMMARY

1. CONVINCING SOCIALIST VICTORY ON 12 JUNE NOW LESS CERTAIN. BUT THE ODDS ARE THAT ROCARD WILL REMAIN PRIME MINISTER. THE CHANCES FOR A CONSTRUCTIVE COALITION WITH THE CENTRE WILL BE ON BOTH MEN'S MINDS. THE FRENCH ECONOMY IN REASONABLE SHAPE. EARLY MEASURES OF THE NEW GOVERNMENT GIVE PROMINENCE TO SOCIAL AFFAIRS. FEW CHANGES LIKELY IN FOREIGN POLICY OR DEFENCE FIELDS. BILATERAL RELATIONSHIP SMOOTH.

DETAIL

FRENCH INTERNAL POLITICS

2. MITTERRAND DEFEATED CHIRAC BY A CONVINCING 8 PERCENT MARGIN IN THE PRESIDENTIAL ELECTIONS LAST MONTH. HE DID SO BY PLAYING DOWN HIS SOCIALIST CREDENTIALS AND APPEALING TO THE MODERATE CENTRE. HIS APPOINTMENT OF ROCARD AS PRIME MINISTER SYMBOLISED HIS COMMITMENT TO WORK FOR A POLITICAL OPENING (QUOTE OUVERTURE UNQUOTE) TO THE CENTRE-RIGHT, WHICH HE HAS SAID HE WILL CONTINUE AFTER THE SECOND ROUND OF THE LEGISLATIVE ELECTIONS ON 12 JUNE. ALTHOUGH THE SOCIALISTS DID LESS WELL IN THE FIRST ROUND THAN EXPECTED (PARIS TELNO 566 OF 6 JUNE), THEY STILL SEEM LIKELY TO SECURE AN OVERALL MAJORITY IN THE NEW ASSEMBLY. MITTERRAND WILL NOT MIND IF IT IS A NARROW ONE SINCE THIS SHOULD FURTHER THE PROCESS OF OUVERTURE. (A NARROW RIGHT WING VICTORY CANNOT HOWEVER BE ENTIRELY EXCLUDED, IN WHICH CASE THERE COULD BE A RETURN TO COHABITATION, SOMETHING THAT WOULD BE MOST UNWELCOME TO MITTERRAND.)

3. ROCARD IS ONE OF THE MOST POPULAR POLITICIANS IN FRANCE. ON THE SOCIAL DEMOCRATIC WING OF THE PS, HE HAS A REPUTATION FOR MODERATION AND INTELLECTUAL INDEPENDENCE. HE IS A KEEN ADVOCATE OF OUVERTURE AND IS LIKELY TO REMAIN AT MATIGNON, ASSUMING THE SOCIALISTS WIN A MAJORITY. HE HAS SAID HE WANTS TO INCLUDE MORE CENTRISTS IN THE GOVERNMENT ONCE THE ELECTIONS ARE OVER. HE HAS GIVEN SOCIAL ISSUES A HIGH PRIORITY (SEE PARA 6), NOT LEAST WITH THE AIM OF COUNTERING THE

APPEAL OF LE PEN'S EXTREMIST FRONT NATIONAL.

ECONOMIC AND SOCIAL AFFAIRS

4. THE FRENCH ECONOMY IS PERFORMING RATHER BETTER THAN EXPECTED, THOUGH THE OUTLOOK REMAINS UNCERTAIN. PROVISIONAL FIGURES INDICATE THAT GDP GROWTH IN THE FIRST QUARTER OF 1988, FED BY CONSUMER DEMAND, ROSE BY 1.2 PERCENT, SUGGESTING A 1988 GROWTH RATE OF 2.3 PERCENT, COMPARED WITH PREVIOUS ESTIMATES OF AROUND 1.5 PERCENT. THE LATEST TRADE FIGURES POINT TO A 1988 DEFICIT OF SOME 20 BILLION FRANCS (POUNDS 2 BILLION), AN IMPROVEMENT ON 1987 BUT WITH EXPORTS OF MANUFACTURED GOODS REMAINING SLUGGISH. INFLATION HAS EDGED UP TO 2.5 PERCENT AFTER BAD APRIL FIGURES AND IS CAUSING THE GOVERNMENT SOME CONCERN, AS IS THE UPWARDS UNDERLYING TREND IN UNEMPLOYMENT (10.3 PERCENT IN APRIL).

5. THE NEW GOVERNMENT'S COMMITMENT TO BROAD CONTINUITY OF ECONOMIC POLICY, WITH PRIORITY GIVEN TO THE CONTROL OF INFLATION AND THE BUDGET DEFICIT, HAS REASSURED THE MARKETS, CONTRIBUTING TOWARDS A STRONG STOCK MARKET AND A STABLE FRANC. THE GOVERNMENT REMAINS COMMITTED TO THE REINTRODUCTION OF A WEALTH TAX, PERHAPS IN THE 1989 BUDGET TO BE PUT TO THE NATIONAL ASSEMBLY THIS AUTUMN, AND A MINIMUM INCOME MEASURE IS EXPECTED TO BE INTRODUCED LATER THIS SUMMER.

6. THERE HAVE BEEN CLEAR SIGNALS THAT THE GOVERNMENT PUTS GREATER WEIGHT THAN ITS PREDECESSOR ON SOCIAL ISSUES. ROCARD HAS ALREADY HAD FORMAL TALKS WITH TRADE UNIONS AND EMPLOYERS' ASSOCIATIONS AND THE MINISTER FOR SOCIAL AFFAIRS HAS CALLED FOR NEGOTIATIONS ON REDUNDANCY PROCEDURES. THE ELYSEE HAS TOLD US THAT THE SOCIAL DIMENSION IS TO BE A MAJOR THEME FOR THE FRENCH EC PRESIDENCY IN 1989, WITH EMPHASIS ON A DIALOGUE BETWEEN QUOTE SOCIAL PARTNERS UNQUOTE AT COMMUNITY LEVEL. DELORS'S CALL FOR A MINIMUM SET OF BASIC SOCIAL RIGHTS, A RIGHT TO TRAINING AND A EUROPEAN STATUTE ON COMPANY LAW, IS LIKELY TO FIND A SYMPATHECTIC AUTIENCE HERE.

FOREIGN POLICY AND DEFENCE

7. THERE HAVE SO FAR BEEN FEW SIGNS OF CHANGES IN THE FOREIGN POLICY AND DEFENCE FIELDS SINCE THE NEW GOVERNMENT TOOK OFFICE. MITTERRAND'S PERSONAL COMMITMENT TO THE CONSTRUCTION OF EUROPE AND TO HELP FOR THE THIRD WORLD, PROMINENT IN HIS LETTER TO THE FRENCH PEOPLE, IS BOUND TO LEAD TO THEIR RECEIVING GREATER ATTENTION FROM A SOCIALIST GOVERNMENT: WE MAY WELL SEE SIGNS OF THIS AT HANOVER AND TORONTO. THE PRESIDENT MAY ALSO SEEK A HIGHER FRENCH PROFILE ON ARMS CONTROL AND EAST/WEST RELATIONS THAN OVER THE PAST TWO YEARS: IN HIS TIME MAGAZINE INTERVIEW OF 16 MAY, HE MADE PEACE AND DISARMAMENT AN

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EQUAL FOREIGN POLICY PRIORITY WITH ECONOMIC AND POLITICAL PROGRESS IN EUROPE. THERE HAVE BEEN RUMOURS OF A MITTERRAND-GORBACHEV SUMMIT SOON, THOUGH THE ELYSEE TELL US THAT THIS IS NOT ENVISAGED BEFORE THE END OF THIS YEAR. IN THE SAME INTERVIEW HE GAVE PROMINENCE TO EUROPEAN DEFENCE COOPERATION, AND HE AND ROCARD BOTH UNDOUBTEDLY SET STORE BY A CONTINUING IMPROVEMENT IN BILATERAL DEFENCE COOPERATION WITH THE UK, AS WELL AS WITH THE FRG AND SPAIN. ONE AREA IN WHICH CHANGE COULD OCCUR THAT WOULD BE UYNWELCOME TO US IF SANCTIONS AGAINST SOUTH AFRICA, AS THE QUAI AFRICAN DIRECTOR HINTED IN TALKS IN LONDON ON 20 MAY (FCO TELNO 320 TO PARIS).

BILATERAL

8. THERE ARE NO SERIOUS CURRENT PROBLEMS, BUT BOTH FRENCH LEADERS WILL BE KEEN TO IDENTIFY WAYS IN WHICH UK-FRENCH RELATIONS CAN BE GIVEN MORE SUBSTANCE (SEE MIFT PARA 8).

RECENT MEETINGS

9. THE FOLLOWING LEADERS HAVE RECENTLY BEEN IN FRANCE:

MULRONEY: 26 MAY
KOHLE: 2 JUNE
DE MITA: 3 JUNE
TAKESHITA: 6/7 JUNE

10. SEE MIFT FOR COMMENT ON SUBSTANCE LIKELY TO BE RAISED AT THE PRIME MINISTER'S MEETINGS.

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REC.	08 JUN 1988
	Mr H.P. EVANS
	EST
	Mr G. LITTLER
	Mr LANKESTER
	Mr A.J.C. EDWARDS
	Mr PERETZ
	Mr MOUNTFIELD

Foreign and Commonwealth Office

London SW1A 2AH

8 June 1988

Dear Charles,

Prime Minister's Visit to Paris: 10 June

The Prime Minister will have about 2½ hours' discussion with President Mitterrand, including lunch, and one hour with M Rocard, when she visits Paris on 10 June. There is plenty of current business to discuss, eg before Toronto and Hanover, but President Mitterrand is likely to want also a broader discussion of the place of Britain and France in the European and international context over the next few years. We believe that he and M Rocard would agree on the desirability of laying the groundwork at this meeting for future Anglo-French initiatives (what the Elysée call "projets mobilisateurs").

France Internal

President Mitterrand's convincing victory (54-46%) over M Chirac has given him a clear mandate and fresh authority. Although the Socialist Party did less well than expected in the first round of the legislative elections, they are still expected to win an overall majority in the National Assembly in the second round. The voting percentages were:- Communists 11.35%; Socialists 37.5%; UDF/RPR 40.4%; Front National 9.7%. If the same pattern prevails in the decisive second round the Socialists will emerge as the largest single party; the Front National will be virtually eliminated. The message seems to be that President Mitterrand's victory was a personal one, and that the voters are seeking a moderate, centrist government, but the exceptionally low turn-out makes all interpretation subject to caution.

A Socialist victory would in some respects recall their success in 1981. It would certainly mean an end to cohabitation for the next 5 years. But the parallel also brings out the changes since the 1981 euphoria - a much more pragmatic Socialist Party, an incumbent President who claims he will preside and leave the detail to his Ministers, a deeply divided Right and an active debate over whether either individuals or a group from the centre-right can be detached to join M Rocard's government. All this gives the President a strong tactical position. What is less clear is how he intends to use it. There is little sign of any radical departure from the policies already being pursued.

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On the economy for example, M Rocard has already announced that he is prepared to see unemployment rise rather than increase the budget deficit and renew special employment schemes. The recent further, if minor, relaxation of capital controls also signals continued commitment to some at least of the previous administration's micro-economic objectives. The economic situation is not however particularly good. Growth is not expected to exceed 2% in 1988; unemployment is 10.5%; the external current account moved into deficit in 1987, and trade in manufactures was in deficit for the first time in 18 years. Inflation was however down to 2.5% in March this year. Statistics are attached.

Agenda

Although there is no agenda as such, Elysée officials have identified four main headings:-

- East/West Relations (following the Moscow Summit).
- The Hanover European Council meeting (in broad terms) and the main priorities for Europe in the period up to 1992, including monetary cooperation.
- The bilateral relationship (follow-up to the January Summit and priorities for the future).
- The Toronto Summit (International, Economic and Financial matters, Third World debt, Terrorism).

Although M Rocard will almost certainly not attend the Toronto and Hanover meetings, he will probably want to discuss, possibly in greater detail than President Mitterrand, some of the main international and EC subjects which will come up. This reflects the general division of tasks between President and Prime Minister.

East/West Relations

In many respects the French analysis of the changes in Soviet policy, particularly in foreign affairs, is very close to our own, if not even more cautious. They share our concern about the effect of Gorbachev and his smile on Western public opinion and our desire to bolster support for nuclear deterrence. Traditional French suspicions about a US-Soviet condominium fixing world affairs over Europe's head have also resurfaced, most notably over Afghanistan. Even so, there is much scope for us to work together to persuade other Western governments to make realistic assessments and to discourage moves to "help" Gorbachev.

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The Foreign Secretary recommends that in Paris the Prime Minister:-

- a) explain our support for Gorbachev's reform efforts and our readiness to acknowledge genuine change; but that is matched by our caution about how far withdrawal from Afghanistan will lead to the emergence of a genuinely independent government there, or to the peaceful solution of other regional conflicts (Soviet and Cuban military support on the ground for the regimes in Angola and Ethiopia has been unaffected so far) and by our concern that the Soviet military threat continues unchecked, not least in Europe.
- b) stress that despite the lack of major new agreements or breakthroughs, the Moscow Summit was a real success. It consolidated the recent improvement in US/Soviet relations and was a symbol of the steady, stable management of East/West relations which has long been our aim. The Prime Minister could give President Mitterrand her personal impression of the Summit on the basis of her talks with President Reagan last week. She could also take the opportunity to emphasise that the President was quite right to put the spotlight on human rights. This is a key issue and lies at the very heart of differences between East and West. To gloss over it would give the wrong impression to the Russians (who now accept that Western leaders have a right to comment on these questions).
- c) stress the need for Britain and France to concert closely on the challenges and opportunities of the present period. Specifically, the Foreign Secretary recommends that the Prime Minister seek to maximise the common ground on nuclear issues. President Mitterrand's attitude to France's theatre nuclear modernisation was at best ambivalent during the Presidential election campaign. By extension, French resistance to SNF negotiations cannot perhaps be taken for granted in future. The political danger of appearing to sanction progress towards the denuclearisation of Europe is, however, something that President Mitterrand should be alive to. The Prime Minister might remind him of the impact on German public opinion of his support, expressed in a speech in the Bundestag, for the INF decision of 1979; and express the hope that he will use his influence helpfully over SNF modernisation as well.
- d) underline the need for early Alliance agreement on proposals to put forward at the forthcoming conventional stability negotiations. The French have hitherto resisted what other Allies favour, namely an equal ceilings regime covering the entire Atlantic/Urals area. They have said

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that they can only accept equal ceilings in a much narrower zone of the WEU countries on the Western side and an equivalent zone on the Eastern side, or in a zone which excludes France entirely. These proposals have attracted no support because they make little military sense. The Prime Minister could make clear to both President Mitterrand and M Rocard that we should not enter into complex conventional arms control negotiations except on the basis of zonal arrangements reflecting sound security considerations; and that equal ceilings covering the entire area represent an effective and publicly defensible method for securing the asymmetrical reductions by the East which we seek.

A number of other subjects may come up in discussion:-

- on Soviet internal developments, the Prime Minister could draw attention to the struggle going on in the run-up to the Party Conference at the end of June. It involves attempts by both sides to fix the choice of delegates and (for the first time) some argument in public. In the end, the Conference is unlikely to produce large-scale personnel changes, but endorsement of Gorbachev's overall approach may make resistance to reform more difficult in the future. In the longer term, Gorbachev's ability to put more food and consumer goods in the shops may be a critical factor in his success or failure.

- on Eastern Europe, the French may be interested to hear the Prime Minister's impressions of Grosz in view of his elevation to the Party leadership. She might also mention that she hopes to use the prospect of her visit to Poland to put pressure on the Poles to pursue economic reform and political dialogue.

- on CSCE, we still hope the negotiation can be completed in July, but this depends on Eastern willingness to agree a balanced and substantial outcome. There remains much to negotiate, particularly on military security, human rights/human contacts and follow-up activities. Soviet hints to the Americans about a more forthcoming attitude in Vienna have not so far borne fruit, and the obstructive Romanian attitude to human rights looks increasingly like a major stumbling block. The issue of a Moscow Conference on human rights has receded into the background (it was not mentioned at the US-Soviet Summit) but is not yet dead. The Prime Minister might say that it would now be timely for the West to consider how to kill off the idea.

- on chemical weapons, the French support a global and effective ban but, like us, believe that complex issues remain to be resolved in the Geneva negotiations and that this will take time. They have been particularly irritated by FRG

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pressure for speedy progress. It would be useful to sound them out about their attitude to the German approach, while encouraging them to do what they can to maintain Western unity in public, in particular at a time when Soviet propaganda risks putting the West on the defensive. We informed the French about the exchange of visits between the chemical defence establishment at Porton Down and the Soviet CW facility at Shikhany. We shall brief them and other allies in detail on the Shikhany leg (30 June - 3 July). They have no intention of arranging a similar exchange between a French and Soviet establishment.

EC ISSUES

All the signs are that President Mitterrand will want the European Council to take a significant step further in the field of monetary construction. He will also want to mark the return to power of a Socialist government by giving fresh impetus to Community involvement in social issues. This fits with M Delors' priorities and those of the Greek Presidency.

There are obvious difficulties for us in this agenda but no reason to assume that we and the French must be at loggerheads. For a start, the French agree with us that the single market must be top of the EC agenda. They will also be very aware that progress may be slow under the next two (Greek and Spanish) Presidencies and that it will be for them to give real impetus to the single market campaign in their Presidency in the second half of 1989.

The Prime Minister may therefore wish to stress to President Mitterrand the importance we attach to the French Presidency and to outline the areas we see as priorities to end-1989. She may wish to suggest that we should work with the Germans to get Hanover to endorse these priorities for future work in the knowledge that this will help us to keep up the momentum between now and the French Presidency next year. The priorities are:

- financial services (further progress beyond the likely agreements on capital movements and non-life insurance) eg banking, securities and life insurance;

- mutual recognition of testing and certification procedures and further agreement covering product standards;

- further opening up of public purchasing in member states and measures to ensure compliance;

- further transport liberalisation (including shipping cabotage; further opening up of air transport services and road transport cabotage);

- opening up the market in telecommunications.

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For the immediate future, Chancellor Kohl's letter to EC Heads of Government outlines the areas in which the Presidency hope to see progress by Hanover, including;

- capital liberalisation
- mutual recognition of diplomas
- rights of residence
- road haulage market acces
- public procurement
- intellectual property (trade marks and patents)
- food law

With the exception of rights of residence, these are all UK priorities. The letter also identifies some 31 individual measures which the Presidency hope to see agreed between now and Hanover. Few of these present any substantive problems for the UK. However, the French may try to insist that liberalisation of capital movements should be accompanied by a withholding tax on savings. The new French Government has made encouraging noises about agreeing to move swiftly to end the remaining French exchange controls. However, the French, who tax investment income relatively heavily, have also expressed disquiet about the increased scope for tax evasion which they believe will follow from abolition. Hence the French pressure for a harmonised withholding tax on savings. We have naturally opposed this (not least because it will simply drive business away from Europe altogether) and ECOFIN had earlier accepted that while, discussion should continue on this issue, agreement on it should not be regarded as a precondition for the adoption of the Directive. The heightened concern recently shown by the French on this issue may be linked to President Mitterrand's manifesto commitment to the introduction of a substantial wealth tax. If the French raise the issue, the Prime Minister may wish to point out that their view ignores the fact that third countries will still be able to offer beneficial rates. Investment would be driven out of Europe, taking business, jobs and taxable profits with it. EC Finance Ministers rightly agreed at ECOFIN on 14 May that there should be no question of making tax harmonisation a precondition for the liberalisation of capital movements.

Unlike us, the French do not see the creation of a Single Market as part of a necessary wider liberalisation, internal and external. They remain more protectionist, and keen to ensure that third countries do not have access to the liberalised internal market without providing reciprocal access in their home market. This is not an issue which need be raised with the French at this stage. But if the French raise it, the Prime Minister may wish to say that the Single Market is about dismantling barriers to trade, not about erecting new ones. What is true for the Community is true for

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the Community's relations with the outside world: putting barriers in the way of competition removes much of the pressure for innovation and efficiency. In the short term the consumer suffers through higher prices. In the long term even the workforce in the protected industries suffer.

Social Issues

President Mitterrand, and to a lesser extent M Rocard, may press the French Government view that the Community should be making progress on the "social area", ie harmonisation of legislation relating to wages, social security, working hours and working conditions. Such ideas have considerable support in the Commission. The proposals involve a "minimum threshold of social rights" for workers; a right to permanent training based on a system of credits over a lifetime; and changes in Community company law to promote worker participation in decision making.

In response to any approach, the Prime Minister may wish to make the following points:

- Europe's biggest social problem is unemployment. The Single Market will provide new opportunities for growth and job creation. There is scope for building on the 1986 Employment Resolution and implementing its provisions for greater labour market flexibility and training and retraining of the long-term unemployed.

- Rights and duties of employees should be decided by discussions between employers and employees. We must not create new burdens on businesses that destroy the benefits of the single market including the capacity of firms to generate new jobs.

- We have not neglected the social dimension in our national policy: we are spending more than ever before on training and retraining. But it is much easier to engage the interest and support of firms in training programmes for eg young school leavers if they themselves are operating in a climate of deregulation and therefore of opportunities for growth. The UK unemployment rate is falling faster than in any other EC country (and is lower than that of France: 8.9%/10/5%).

Monetary Cooperation

President Mitterrand favours the establishment of some kind of independent group of 'wise men' to look into monetary construction, including the possible establishment of a European Central Bank. Reports (from Paris) of his meeting with Chancellor Kohl on 3 June suggest that he may have made

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progress in overcoming Chancellor Kohl's scepticism about "wise men". It is likely that, without going into detail, he will want to explain to the Prime Minister how he sees greater monetary cooperation as essential to the development of the Community and urge that the UK join the ERM. French interest is motivated partly by a political desire to be seen to be giving a greater impetus to economic and monetary union; and partly a wish to see what they call greater symmetry in the present system: a less DM-centred zone and a greater Bundesbank willingness to support the weaker currencies. They favour sterling's membership of the ERM in part because they think that would make it less of a DM-centred system. Some of M. Mitterrand's advisers argue, however, that the task of developing the ERM further must now proceed without waiting any longer for the UK.

The ex-French Finance Minister, M Balladur, wrote to his EC Finance Minister colleagues in January with a paper on 'European Monetary Construction'. This proposed various steps including early liberalisation of capital movements, lessening the 'asymmetry' within the ERM, adopting a common stance towards non-Community currencies and, finally, the long-term development of a single currency area with a common central institution. French spokesmen have subsequently made it clear that they see the last step as a long-term one; and have stressed the need to concentrate on points of more immediate operational interest. The French appear to wish to proceed by building up a central role for the European Monetary Cooperation Fund. The new French Finance Minister, Bérégovoy, has indicated his support for the thrust of these proposals - though not for the idea of countries ceding sovereignty to a supra-national European Central Bank.

Since M Balladur put his paper to other Finance Minister, French officials have made a number of more detailed suggestions. These include intensified coordination of economic policies, greater 'symmetry' in intervention, the diversification of reserve assets (encouraging the growth of cross-holdings of currencies between central banks over the medium-term) and a timetable for phasing out the 'special arrangements' in relation to the EMS exchange rate mechanism (ie a timetable for sterling and other currencies to join and for the Italians to move to narrower margins).

Our priority has been to press for the removal of all remaining exchange controls in the Community. We hope that agreement can be reached on this at ECOFIN on 13 June. But there are other, more technical, issues where we believe some progress can be made. We, and others, support the French proposal for the removal of obstacles which deter Member States from holding other Community currencies in their reserves (The Germans seek to limit intervention by other

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central banks in DM, and refuse to hold anything other than dollars in their own reserves). We also support moves to encourage Member States to maintain greater holdings of private ecus in their official foreign currency reserves and to make greater use of the ecu as an intervention currency. The Chancellor has indicated, both at the informal ECOFIN last month, and publicly, that the UK does not believe it is worth pursuing the more "visionary" ideas of a European Central Bank and a Common currency.

When these issues come up the Prime Minister may wish to draw on the following points:

- Have been interested to hear of variety of French ideas relating to European economic and monetary union;
- First essential step is to agree quickly on full capital liberalisation, and a timetable for dismantling exchange controls in Europe. Should focus efforts initially on achieving that. Therefore warmly welcome new French Government's removal of remaining exchange controls on corporate sector. Hope this will quickly be followed by abolition of controls on individuals. Scrapping UK exchange controls in 1979 was wholly beneficial;
- There are also a number of other more technical ideas in the monetary area on which early progress could be made, including a greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves;
- Any remit from Hanover should seek to give further impetus to work on these points - rather than to a wider study of more futuristic ideas, such as establishment of a European Central Bank, which in any event could not be a true Central Bank so long as nation states exist;
- Any further work on monetary co-operation should be taken forward by Finance Ministers themselves in ECOFIN, together with Monetary Committee and Central Bank Governor's Committee;
- [if asked] Government policy is that sterling will join the ERM when the time is right. Not sensible to try to set a timetable.

Bilateral Relations

East-West relations and Community issues will both be major areas for concertation with the French during Mitterrand's second term. We agreed in our earlier correspondence that defence was also a promising area for future Anglo-French initiatives. We recommend that the Prime Minister underline to President Mitterrand the importance

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which she attaches to taking forward practical defence cooperation between our two countries in the context of strengthening the collective defence of Europe. As mentioned in my earlier letter, the ideas in the Prime Minister's January letter to President Mitterrand were remitted for study to his military adviser, General Fleury. The Elysee have not offered a substantive reaction, and the new government have not yet had time to study the question. It would nevertheless be helpful if the President would agree that work should be taken forward after the elections.

On TASM, there will be feasibility studies over the next 6-9 months with a view to a final decision in 1989. The MOD are considering which options to include in these studies. If the subject is discussed, we recommend that the Prime Minister adopt a neutral line.

The Prime Minister might also wish briefly to touch on conventional defence equipment cooperation. The recent Anglo/French reciprocal procurement initiative is unique within the Alliance and points the way to a more open defence equipment market among all the Allies.

In his reply to the Prime Minister's message of congratulations, the President hinted that he might raise the WEU. If he does, the Prime Minister might say that our objectives during our WEU Presidency will be to develop practical measures for implementing the Platform agreed in The Hague last October; and to bring the enlargement negotiations with Spain and Portugal to a successful conclusion in parallel with a satisfactory definition of Spain's relationship with NATO. On the administrative side, we continue to believe that Brussels is the right site for the organisation to be co-located. We would be prepared to offer London as a second best, but could not agree to Paris. We do not think however that the organisation should waste too much time on this issue if agreement is not in prospect; and we shall not want it to get in the way of other higher priorities.

President Mitterrand may be in a position to confirm French agreement on dates for the major visit to France planned by the Prince and Princess of Wales (7-11 November). The proposed highlight is TRH's attendance at the ceremony on 11 November at the Arc de Triomphe to celebrate the 70th Anniversary of the Armistice. However, announcement of this and the visit's date would be best delayed until nearer the time.

Work on youth exchanges is being taken forward. We are concentrating on doubling the number of government funded youth exchanges within two years, on vocational training exchanges and on a colloquium on educational exchanges.

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We would not expect President Mitterrand or Prime Minister Rocard to raise the Channel Tunnel in other than general terms. However should the familiar French case for the high speed rail link from London to Dover be pressed, the Prime Minister could respond that BR are still studying this possibility and are expected to produce their findings later this month.

Toronto Economic Summit

The new Foreign Minister, M Dumas, has said that agriculture and debt will be French priorities for Toronto. Briefing on debt will follow separately. Agriculture will be a key issue at the Mid Term Meeting (MTM) in Montreal in December. The Prime Minister may wish to say that the Americans must stop denigrating the February Brussels CAP reforms, relax their insistence on zero support by the year 2000, and negotiate sensibly; but that the Community cannot just rest on its February laurels. The main objective at Toronto will be to get a serious negotiation on agriculture going in GATT, without trying to spell out what might or might not be achieved at the MTM.

On the closely linked subject of trade, the Prime Minister could say that UK and French objectives are similar in many areas of the GATT Round. We attach great importance to more effective dispute settlement procedures and closer observance of existing GATT rules. The Toronto Summit can again give new impetus to the negotiations. If the French insist on a narrow interpretation of "globality" the Prime Minister could say that to progress on all issues at the pace of the slowest is a sure recipe for failure. We should make progress at Montreal where we can.

President Mitterrand may refer to his proposal for a discussion (during the informal session on the second day of the Summit) of the impact of fast changing technologies on the labour market and education system. This would fit well with the wider field of demographic change that the Americans may plan to raise. These are issues of growing importance to all European (and Japanese) economies.

On the political agenda at Toronto, apart from East-West relations, we have been seeking discussion of terrorism and the Middle East. Both issues, as well as South Africa, are worth raising with President Mitterrand if time permits.

On terrorism, the French continue to show hesitancy over including any language in the political statement at the summit. It would be useful if the Prime Minister could impress on them the importance we attach to covering terrorism

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in the statement (on the lines of draft already prepared). We recommend that she also take this opportunity to thank both President Mitterrand and M Rocard for allowing us access to recently released French hostages, and to express concern at the deal which M Chirac is alleged to have struck with Iran. Could the President assure her that no convicted terrorists will be released as part of the deal?

On Iran/Iraq, the Prime Minister could:-

- reiterate our support for the UNSG's proposal for proximity talks on the implementation of UNSCR 598;
- assure the French of our continuing support for an arms embargo against the Iranians if they remain intransigent;
- underline the valuable role played by western navies in the Gulf, and urge the French to maintain their contingent. (There has been speculation that they might be considering reducing their force.)

The Prime Minister could also restate our concern at the proliferation of ballistic missiles in the region. The Missile Technology Control Regime, designed to control the sale of longer range nuclear capable missiles from Summit 7 countries, owes much to Anglo-French cooperation. We wish to see it extended to include the proliferation of other types of missiles, including those with a CW capability, and to cover other European suppliers, the Russians and Chinese.

On Arab/Israel, in advance of her planned meeting with King Hussein on 15 June, the Prime Minister might compare notes with the French on recent developments in the peace process - the US/Soviet talks in Moscow, the latest shuttle by Mr Shultz (3-8 June), and the Arab Summit in Algiers (7-8 June). Prospects for early progress on the US initiative are poor: Shamir remains obdurately opposed to a land-for-peace deal, and to an international conference; and the Algiers Summit is likely to result in an increasingly tough Arab position. However, we recommend that the Prime Minister stress the importance of keeping faith with US efforts, and maintaining pressure on the Arabs not to adopt more radical policies. These are the best tactics for helping Peres in the run-up to the Israeli elections. The Prime Minister might also test whether there is any French appetite for specific higher profile activity by the Twelve: we doubt that this would be effective (particularly under a Greek Presidency) and suspect that any European move would risk undermining US efforts.

/Recent

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Recent contacts with the French indicate that the end of "cohabitation" may lead to a change in French attitudes to South Africa. They have drawn up a list of possible additional sanctions, including a limited range of economic measures to be applied if South African behaviour was such as to require (in their view) additional Western pressure. They are toying with the idea of a ban on imports of South African fruit and vegetables. The French are well aware of our views. But the Prime Minister may wish to remind President Mitterrand of the familiar slippery slope. Concessions to sanctions pressure in one area - which may be relatively painless for the imposing country - invariably lead to pressure for concessions in other less welcome areas. A ban on fruit and vegetable imports would not just hit Afrikaner farmers. It would increase black rural poverty and accelerate the drift to the towns, without beneficial effect on South African policies.

I am copying this letter to Ian Andrews (MOD), Alex Allan (Treasury) and Trevor Woolley (Cabinet Office).

Yours ever,
L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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FRANCE: BASIC STATISTICS

		France	UK
Population	1985	55.2	56.6
	1986(P)	55.4	56.8
Labour Force	1986	24.0	27.8
Unemployed (% OECD standardised rate)	1987	10.8	10.3
	Mar 1988	10.5	8.9
GDP (\$bn)	1986	724.2	548.2
	1987(P)	870.3	658.9
GDP per head (\$)	1986	13,070	9,650
Annual Growth Rate of real GDP (%)	1986	2.1	2.3
	1987	2.1	4.4
Annual Growth Rate of Industrial Production (%)	1986	1.0	1.9
	1987	2.0	3.6
Inflation (%)	1986	2.5	3.4
	1987	3.3	4.2
	Feb 1988	2.4	3.3
Changes in Relative Labour Unit Costs (% change)	1986	3.0	-6.6
	9 mths 1987	-1.7	-4.7
Balance of Payments on Current Account (\$ bn)	1986	3.7	-1.4
	1987	-3.9	-2.8
Trade Balance (fob-cif, \$bn)	1986	-4.6	-19.2
	1987	-10.0	-23.2
Volume Growth (%): Exports	1986	-2	3.7
	1987	1.3	6.1
Imports	1986	7.1	6.4
	1987	6.3	8.3
<hr/>			
Bilateral Trade	1985	1986	1987
UK Exports to France (fm)	7,771	6,210	7,782
UK Imports from France	6,635	7,349	8,382
Trade Balance	1,136	-1,139	-600

Economic Advisers
31/05/1988

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PRIME MINISTER'S VISIT ON 10 JUNE: THE FRENCH SCENE

SUMMARY

1. CONVINCING SOCIALIST VICTORY ON 12 JUNE NOW LESS CERTAIN. BUT THE ODDS ARE THAT ROCARD WILL REMAIN PRIME MINISTER. THE CHANCES FOR A CONSTRUCTIVE COALITION WITH THE CENTRE WILL BE ON BOTH MEN'S MINDS. THE FRENCH ECONOMY IN REASONABLE SHAPE. EARLY MEASURES OF THE NEW GOVERNMENT GIVE PROMINENCE TO SOCIAL AFFAIRS. FEW CHANGES LIKELY IN FOREIGN POLICY OR DEFENCE FIELDS. BILATERAL RELATIONSHIP SMOOTH.

DETAIL

FRENCH INTERNAL POLITICS

2. MITTERRAND DEFEATED CHIRAC BY A CONVINCING 8 PERCENT MARGIN IN THE PRESIDENTIAL ELECTIONS LAST MONTH. HE DID SO BY PLAYING DOWN HIS SOCIALIST CREDENTIALS AND APPEALING TO THE MODERATE CENTRE. HIS APPOINTMENT OF ROCARD AS PRIME MINISTER SYMBOLISED HIS COMMITMENT TO WORK FOR A POLITICAL OPENING (QUOTE OUVERTURE UNQUOTE) TO THE CENTRE-RIGHT, WHICH HE HAS SAID HE WILL CONTINUE AFTER THE SECOND ROUND OF THE LEGISLATIVE ELECTIONS ON 12 JUNE. ALTHOUGH THE SOCIALISTS DID LESS WELL IN THE FIRST ROUND THAN EXPECTED (PARIS TELNO 566 OF 6 JUNE), THEY STILL SEEM LIKELY TO SECURE AN OVERALL MAJORITY IN THE NEW ASSEMBLY. MITTERRAND WILL NOT MIND IF IT IS A NARROW ONE SINCE THIS SHOULD FURTHER THE PROCESS OF OUVERTURE. (A NARROW RIGHT WING VICTORY CANNOT HOWEVER BE ENTIRELY EXCLUDED, IN WHICH CASE THERE COULD BE A RETURN TO COHABITATION, SOMETHING THAT WOULD BE MOST UNWELCOME TO MITTERRAND.)

3. ROCARD IS ONE OF THE MOST POPULAR POLITICIANS IN FRANCE. ON THE SOCIAL DEMOCRATIC WING OF THE PS, HE HAS A REPUTATION FOR MODERATION AND INTELLECTUAL INDEPENDENCE. HE IS A KEEN ADVOCATE OF OUVERTURE AND IS LIKELY TO REMAIN AT MATIGNON, ASSUMING THE SOCIALISTS WIN A MAJORITY. HE HAS SAID HE WANTS TO INCLUDE MORE CENTRISTS IN THE GOVERNMENT ONCE THE ELECTIONS ARE OVER. HE HAS GIVEN SOCIAL ISSUES A HIGH PRIORITY (SEE PARA 6), NOT LEAST WITH THE AIM OF COUNTERING THE

APPEAL OF LE PEN'S EXTREMIST FRONT NATIONAL.

ECONOMIC AND SOCIAL AFFAIRS

4. THE FRENCH ECONOMY IS PERFORMING RATHER BETTER THAN EXPECTED, THOUGH THE OUTLOOK REMAINS UNCERTAIN. PROVISIONAL FIGURES INDICATE THAT GDP GROWTH IN THE FIRST QUARTER OF 1988, FED BY CONSUMER DEMAND, ROSE BY 1.2 PERCENT, SUGGESTING A 1988 GROWTH RATE OF 2.3 PERCENT, COMPARED WITH PREVIOUS ESTIMATES OF AROUND 1.5 PERCENT. THE LATEST TRADE FIGURES POINT TO A 1988 DEFICIT OF SOME 20 BILLION FRANCS (POUNDS 2 BILLION), AN IMPROVEMENT ON 1987 BUT WITH EXPORTS OF MANUFACTURED GOODS REMAINING SLUGGISH. INFLATION HAS EDGED UP TO 2.5 PERCENT AFTER BAD APRIL FIGURES AND IS CAUSING THE GOVERNMENT SOME CONCERN, AS IS THE UPWARDS UNDERLYING TREND IN UNEMPLOYMENT (10.3 PERCENT IN APRIL).

5. THE NEW GOVERNMENT'S COMMITMENT TO BROAD CONTINUITY OF ECONOMIC POLICY, WITH PRIORITY GIVEN TO THE CONTROL OF INFLATION AND THE BUDGET DEFICIT, HAS REASSURED THE MARKETS, CONTRIBUTING TOWARDS A STRONG STOCK MARKET AND A STABLE FRANC. THE GOVERNMENT REMAINS COMMITTED TO THE REINTRODUCTION OF A WEALTH TAX, PERHAPS IN THE 1989 BUDGET TO BE PUT TO THE NATIONAL ASSEMBLY THIS AUTUMN, AND A MINIMUM INCOME MEASURE IS EXPECTED TO BE INTRODUCED LATER THIS SUMMER.

6. THERE HAVE BEEN CLEAR SIGNALS THAT THE GOVERNMENT PUTS GREATER WEIGHT THAN ITS PREDECESSOR ON SOCIAL ISSUES. ROCARD HAS ALREADY HAD FORMAL TALKS WITH TRADE UNIONS AND EMPLOYERS' ASSOCIATIONS AND THE MINISTER FOR SOCIAL AFFAIRS HAS CALLED FOR NEGOTIATIONS ON REDUNDANCY PROCEDURES. THE ELYSEE HAS TOLD US THAT THE SOCIAL DIMENSION IS TO BE A MAJOR THEME FOR THE FRENCH EC PRESIDENCY IN 1989, WITH EMPHASIS ON A DIALOGUE BETWEEN QUOTE SOCIAL PARTNERS UNQUOTE AT COMMUNITY LEVEL. DELORS'S CALL FOR A MINIMUM SET OF BASIC SOCIAL RIGHTS, A RIGHT TO TRAINING AND A EUROPEAN STATUTE ON COMPANY LAW, IS LIKELY TO FIND A SYMPATHECTIC AUDIENCE HERE.

FOREIGN POLICY AND DEFENCE

7. THERE HAVE SO FAR BEEN FEW SIGNS OF CHANGES IN THE FOREIGN POLICY AND DEFENCE FIELDS SINCE THE NEW GOVERNMENT TOOK OFFICE. MITTERRAND'S PERSONAL COMMITMENT TO THE CONSTRUCTION OF EUROPE AND TO HELP FOR THE THIRD WORLD, PROMINENT IN HIS LETTER TO THE FRENCH PEOPLE, IS BOUND TO LEAD TO THEIR RECEIVING GREATER ATTENTION FROM A SOCIALIST GOVERNMENT: WE MAY WELL SEE SIGNS OF THIS AT HANOVER AND TORONTO. THE PRESIDENT MAY ALSO SEEK A HIGHER FRENCH PROFILE ON ARMS CONTROL AND EAST/WEST RELATIONS THAN OVER THE PAST TWO YEARS: IN HIS TIME MAGAZINE INTERVIEW OF 16 MAY, HE MADE PEACE AND DISARMAMENT AN

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EQUAL FOREIGN POLICY PRIORITY WITH ECONOMIC AND POLITICAL PROGRESS IN EUROPE. THERE HAVE BEEN RUMOURS OF A MITTERRAND-GORBACHEV SUMMIT SOON, THOUGH THE ELYSEE TELL US THAT THIS IS NOT ENVISAGED BEFORE THE END OF THIS YEAR. IN THE SAME INTERVIEW HE GAVE PROMINENCE TO EUROPEAN DEFENCE COOPERATION, AND HE AND ROCARD BOTH UNDOUBTEDLY SET STORE BY A CONTINUING IMPROVEMENT IN BILATERAL DEFENCE COOPERATION WITH THE UK, AS WELL AS WITH THE FRG AND SPAIN. ONE AREA IN WHICH CHANGE COULD OCCUR THAT WOULD BE UYNWELCOME TO US IF SANCTIONS AGAINST SOUTH AFRICA, AS THE QUAI AFRICAN DIRECTOR HINTED IN TALKS IN LONDON ON 20 MAY (FCO TELNO 320 TO PARIS).

BILATERAL

8. THERE ARE NO SERIOUS CURRENT PROBLEMS, BUT BOTH FRENCH LEADERS WILL BE KEEN TO IDENTIFY WAYS IN WHICH UK-FRENCH RELATIONS CAN BE GIVEN MORE SUBSTANCE (SEE MIFT PARA 8).

RECENT MEETINGS

9. THE FOLLOWING LEADERS HAVE RECENTLY BEEN IN FRANCE:

MULRONEY: 26 MAY
KOHL: 2 JUNE
DE MITA: 3 JUNE
TAKESHITA: 6/7 JUNE

10. SEE MIFT FOR COMMENT ON SUBSTANCE LIKELY TO BE RAISED AT THE RIFME MINISTER'S MEETINGS.

FERGUSSON

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MIPT: PRIME MINISTER'S VISIT: MAIN POINTS FOR DISCUSSION

SUMMARY

1. MITTERRAND AND ROCARD BOTH LIKELY TO BE INTERESTED IN EAST/WEST RELATIONS FOLLOWING THE REAGAN/GORBACHEV MEETING, THE TORONTO AND HANOVER MEETINGS, AND BILATERAL QUESTIONS. COUNTER-TERRORISM WORTH MENTIONING.

DETAIL

2. I CALLED TODAY ON HUCHON (ROCARD'S DIRECTEUR DE CABINET), ROCARD HAVING CANCELLED AT THE LAST MINUTE BECAUSE OF ELECTORAL PRE-OCCUPATIONS, TO DISCUSS THE PRIME MINISTER'S VISIT. THIS CALL, TOGETHER WITH THE MINISTER'S CALL ON THE ELYSEE ON JUNE 3 (PARIS TELNO 558), SUGGESTS THAT MITTERRAND AND ROCARD WILL EACH WANT TO CONCENTRATE ON 4 MAIN SUBJECTS: EAST/WEST RELATIONS FOLLOWING THE REAGAN GORBACHEV SUMMIT, THE TORONTO AND HANOVER MEETING AND BILATERAL QUESTIONS.

2. THE BALANCE OF RESPONSIBILITY BETWEEN MITTERRAND AND ROCARD FOR FOREIGN POLICY REMAINS UNCLEAR. HUCHON TOLD ME TODAY THAT THE PRESIDENT WOULD TAKE A STRATEGIC OVERVIEW OF ALL GOVERNMENT POLICIES, WITH PARTICULAR CONCERN FOR FOREIGN AFFAIRS AND DEFENCE, IN LINE WITH HIS CONSTITUTIONAL RESPONSIBILITIES. UNDER THAT UMBRELLA HE WOULD CONCERN HIMSELF WITH EUROPEAN AFFAIRS SO FAR AS MAJOR POLICIES AND FUNDAMENTIAL DECISIONS ON EUROPEAN CONSTRUCTION WERE CONCERNED. FOR THE REST HE APPEARED FIRMLY TO WISH TO DELEGATE THE RESPONSIBILITY FOR RUNNING THE GOVERNMENT TO THE PRIME MINISTER SINCE EVEN WITHIN THE SPECIAL AREAS OF FOREIGN AFFAIRS AND DEFENCE THERE WERE MANY ISSUES REQUIRING DETAILED GOVERNMENTAL DECISION. THE PRIME MINISTER'S MEETINGS WITH MITTERRAND AND ROCARD ARE THEREFORE LIKELY TO COVER BROADLY THE SAME AGENDA.

EAST/WEST

3. MITTERRAND AND ROCARD WILL BOTH BE KEEN TO GET A FIRST-HAND IMPRESSION FROM MRS THATCHER OF THE REAGAN/GORBACHEV MEETINGS IN THE

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LIGHT OF PRESIDENT REAGAN'S VISIT TO LONDON AND TO ALLOW THAT TO LEAD INTO AN ANALYSIS OF THE PRESENT STATE OF EAST/WEST RELATIONS.

TORONTO ECONOMIC SUMMIT

4. MITTERRAND WILL BE ACCOMPANIED TO TORONTO BY DUMAS (FOREIGN MINISTER) AND BEREGOVY (FINANCE MINISTER). HUCHON CONFIRMED THIS MORNING THAT ROCARD WILL NOT (NOT) ATTEND. MITTERRAND'S PRIORITIES AT THE SUMMIT WILL BE AGRICULTURE AND DEBT. HE WILL BE DETERMINED TO ENSURE THAT AGRICULTURE IS NOT GIVEN ANY PRIORITY TREATMENT AT THE GATT MID-TERM MEETING IN DECEMBER, AND EQUALLY DETERMINED THAT FULL CREDIT BE GIVEN TO THE EC FOR THE EFFORTS MADE TO CONTAIN AGRICULTURAL SPENDING. ROCARD WILL SHARE THESE VIEWS. HUCHON UNDERLINED TO ME THIS MORNING THE SENSITIVITY OF AGRICULTURE BOTH IN THE GATT AND IN THE EC CONTEXT: ROCARD WAS INCREASINGLY CONCERNED AT THE POTENTIALLY NEGATIVE IMPACT ON FRENCH PUBLIC OPINION OF THE DIFFICULTIES OF ABSORBING RECENT REFORMS OF AGRICULTURAL POLICY IN THE COMMUNITY. IT WAS ALSO CLEAR THAT THE IMPACT OF CAP REFORM COULD MAKE IT MORE DIFFICULT TO PERSUADE PUBLIC OPINION TO ACCEPT THE COMPLEX OF DECISIONS NEEDED IN THE RUN UP TO 1992. ROCARD WOULD BE SUGGESTING THAT THE COMMUNITY SHOULD PROCEED MORE SLOWLY ON AGRICULTURAL REFORM.

5. ON DEBT, THE SIGNS ARE THAT MITTERRAND WILL COME FORWARD WITH IDEAS FOR EASING THE BURDEN ON THE POOREST COUNTRIES, BUT THAT THE DETAILS HAVE NOT YET BEEN WORKED OUT. WE HAVE STRESSED THE IMPORTANCE OF CONSISTENCY BETWEEN FRENCH IDEAS AND THE CHANCELLOR'S INITIATIVE, AND THE NEED FOR CONSULTATION.

6. THE PRIME MINISTER'S MEETINGS WILL PROVIDE AN OPPORTUNITY TO EMPHASISE TO BOTH MITTERRAND AND ROCARD THE IMPORTANCE WE ATTACHE TO REAL PROGRESS (ON AGRICULTURE AND OTHER SUBJECTS) IN THE GATT URUGUAY ROUND, AND TO THE NEED FOR CONSISTENCY BETWEEN FRENCH AND BRITISH IDEAS ON DEBT.

HANOVER EUROPEAN COUNCIL

7. HUCHON TOLD ME TODAY THAT A FINAL DECISION ON ATTENDANCE AT HANOVER HAD NOT YET BEEN TAKEN, BUT THAT ROCARD WOULD PROBABLY NOT (NOT) GO. AT HANOVER, MITTERRAND WILL WANT A REAL IMPULSE TO BE GIVEN TO THE COMPLETION OF THE SINGLE MARKET. BUT HE WILL SEE THIS IN A BROADER SENSE THAN WE DO, TO INCLUDE PROGRESS ON MONETARY COOPERATION. LIKE KOHL, HE WILL WANT TO AVOID DETAILED DISCUSSION OF DIRECTIVES. THE PRIME MINISTER'S MEETING WILL PROVIDE AN OPPORTUNITY TO UNDERLINE OUR COMMON INTEREST IN MAPPING OUT AT HANOVER THE PRACTICAL STEPS NEEDED TO MOVE FORWARD TOWARDS 1992 OVER THE NEXT

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YEAR, SO THAT THE MOMENTUM IS MAINTAINED BETWEEN HANOVER AND THE FRENCH PRESIDENCY IN THE SENCOND HALF OF 1989. RECENT CONVERSATIONS HERE AND IN BONN SUGGEST THAT THE FRENCH AND GERMANS - WHO WILL NO DOUBT TRY TO MAKE THE RUNNING AT HANOVER - ARE NOT YET AGREED ON HOW WORK ON MONETARY COOPERATION MIGHT BE TAKEN FORWARD. THERE WILL THUS BE A CHANCE TO FEED IN OUR OWN IDEAS.

BILATERAL DEFENCE RELATIONSHIP

8. MITTERRAND AND ROCARD WILL BE KEEN THAT DEFENCE SHOULD BE ONE AREA FOR CONTINUING IMPROVEMENT IN UK-FRENCH RELATIONS. IT REAMINS A MATTER OF DOGMA ACROSS THE POLITICAL SPECTRUM THAT A RETURN TO THE INTERGRATED COMMAND STRUCTURE OF NATO IS NOT A POLITICAL POSSIBILITY, THOUGH MITTERRAND'S ATTENDENCE AT THE NATO SUMMIT WAS A SIGNIFICANT PUBLIC ACT AND THERE ARE NUMEROUS EXAMPLES OF FRENCH WILLINGNESS TO CREEP UNOBTRUSIVELY CLOSER TO NATO. THEY WILL BE LOOKING TO SEE WHAT CAN BE DONE TO BUILD ON THE PRIME MINISTER'S EXCHANGE WITH MITTERRAND. THEY WILL BE HOPEFUL BUT NOT CONFIDENT OF THE POSSIBILITY OF PROGRESS IN THE SENSITIVE AREA OF NUCLEAR EXHCNAGES, AND WELL AWARE OF THE ADVANTAGE OF OUR CONTINUING TO WORK TOGETHER ON RATIONALISING EQUIPMENT COLLOBORATION. THEY WILL BE AWARE OF MR YOUNGER'S POSITIVE PRELIMINARY MEETING WITH M. CHEVENEMENT AT CAEN ON 6 JUNE - WITH A SUBSTANTIVE MEETING IN LINE FOR 7 JULY.

COUNTER-TERRORISM

9. IT MIGHT BE WORTH CONSIDERING A REFERENCE TO THE EXCELLENT PRACTICAL COOPERATION WE HAVE HAD FROM THE FRENCH (EG EKSUND) OVER THE PAST TWO YEARS, EXPRESSING THE HOPE THAT THIS WILL CONTINUE. THE SOCIALIST GOVERNMENT PRE-1986 (WITH JOXE AS INTERIOR MINISTER) WAS NOT (NOT) AS SOLID, ESPECIALLY ON COUNTERING IRA ACTIVITY, AS CHIRAC/PASQUA, ALTHOUGH MR HURD HAD A USEFUL INFORMAL MEETING WITH M. JOXE ON 21 MAY. A FORTHCOMING RESPONSE FROM ROCARD TO THE PRIME MINISTER WOULD BE USEFUL TOOL IN THE FUTURE.

FERGUSSON

YYYY



CH/EXCHEQUER	
REC.	08 JUN 1988
ACTION	Mr BOTTRILL
COPIES TO	PS TEST SIR P MIDDLETON SIR G LITTLER SIR T BURNS Mr LANKESTER Mr MOUNTFIELD
8 June 1988 Mr H.P. EVANS	

✓
8/6

Ch. We are getting urgent briefing. Key points (highlighted) in pgs 2 & 3 of the letter. 8/6

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Dear Alex,

FRENCH INITIATIVE ON DEBT

I enclose a copy of a letter to the Prime Minister from President Mitterrand putting forward a French initiative on debt which he hopes will be discussed at the Economic Summit in Toronto. I should be grateful if the Foreign Office, to whom I am also copying this letter and the message, could arrange for an urgent translation.

The subject will also come up at the Prime Minister's meeting in Paris with President Mitterrand on Friday and you will want to cover it in the briefing.

It would be helpful to have advice in due course on whether the Prime Minister needs to reply in writing to the message ahead of the Summit.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office) and Myles Wickstead (Overseas Development Administration).

(C. D. POWELL)

Alex Allan, Esq.,
HM Treasury.

AMBASSADE DE FRANCE
LONDRES

7th June, 1988

Dear Prime Minister,

I have just received the text of a message addressed to you by Monsieur François Mitterrand, Président de la République.

I enclose it herewith.

Yours sincerely

Jean-Noël de Lacoste

Jean-Noël de Bouillane de Lacoste
Ministre Conseiller

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister,
10, Downing Street,
London S.W.1.

MESSAGE DE MONSIEUR FRANCOIS MITTERRAND,
PRESIDENT DE LA REPUBLIQUE

A

THE RT. HON. MARGARET THATCHER, M.P.
PRIME MINISTER

Paris, le 7 juin 1988

"Madame le Premier Ministre,

Jamais il n'a été aussi urgent et aussi nécessaire d'agir pour aider les pays du tiers monde, le fossé ne cessant de s'élargir entre pays riches et pays pauvres.

Alors que diminuent leurs ressources, en raison notamment de la chute du cours des matières premières, alors qu'ils ont à affronter famines, épidémies, fléaux naturels et que l'extrême pauvreté croît en Afrique, en Amérique Latine et dans de nombreuses régions d'Asie, les pays en développement les plus pauvres ne sont pas, et ne seront pas, en mesure de rembourser aux pays développés l'intégralité de leurs dettes, selon les conditions qui leur sont aujourd'hui imposées.

.../...

Nous ne pouvons plus admettre une situation où les transferts financiers du Sud vers le Nord excèdent de près de 30 milliards de dollars les transferts inverses, le poids des remboursements l'emportant sur les crédits nouveaux.

Lors du Sommet de Venise, nous avons reconnu la nécessité d'un programme spécial en faveur des pays les plus pauvres qui ont entrepris des efforts "d'ajustement". Nous étions convenus de rechercher un accord sur un allongement des périodes de remboursement : cela a été fait. Nous n'avons pas en revanche progressé dans l'application de taux d'intérêts plus bas pour les consolidations de dette.

Pour sortir de l'impasse actuelle, je propose donc d'assouplir les conditions de remboursement des pays les plus pauvres, définis selon les mêmes critères que nous avons arrêtés lors du Sommet de Venise, en laissant le choix aux pays créanciers de leur proposer l'une des trois possibilités suivantes :

- une annulation immédiate du tiers de la dette, dans le cadre d'accords de consolidation sur une période de l'ordre de 10 ans ;

.../...

- une consolidation de la dette aux taux du marché, mais avec une durée maximale de 25 ans (au lieu de 20 ans au plus aujourd'hui) ;
- une consolidation de la dette à un taux préférentiel, réduit au moins de moitié sur une durée de remboursement de l'ordre de 15 ans.

Je souhaite que cette proposition puisse rencontrer votre approbation et celle de tous les autres Chefs d'Etat et de Gouvernement participant au prochain Sommet de Toronto.

Je vous indique d'ores et déjà que la France entend pour ce qui la concerne offrir, en tout état de cause, à tous les débiteurs concernés qui le voudraient, d'annuler le tiers de ses créances; cette option qui présente l'avantage d'entraîner une baisse immédiate de l'encours de la dette me paraît la mieux adaptée à la situation des pays les plus pauvres.

L'intensification de l'action menée au bénéfice des pays les plus démunis ne signifie évidemment pas pour autant que nous devrions relâcher notre effort en faveur des pays dits "à revenu intermédiaire" qui sont souvent lourdement endettés.

.../...

Il faut faire preuve de plus d'imagination, et de réalisme, par exemple en élargissant le champ des consolidations des créances publiques, étendu si nécessaire aux échéances d'intérêts. La mobilisation de ressources nouvelles et le recours à de nouveaux instruments financiers, s'inspirant des techniques de marché, doivent être encouragés pour les créances bancaires. Enfin il est indispensable de mettre en oeuvre plus rapidement les décisions multilatérales récentes, je pense par exemple à l'augmentation du capital de la Banque Mondiale, prises en matière d'aide publique au développement.

Je me réjouis, Madame le Premier Ministre, de pouvoir discuter avec vous de toutes ces questions à Toronto et je vous prie de croire à l'assurance de ma haute considération et de mes fidèles sentiments.

signé : François Mitterrand"../.

France
pw

ROUGH TRANSLATION OF GUTS OF MITTERAND PROPOSALS

In order to get out of the present impasse, I propose to ease repayment conditions for the poorest countries, defined according to the same criteria that we agreed at the Venice Summit, by giving creditor countries the choice of offering one of the following three possibilities:

- an immediate cancellation of a third of the debt, in the framework of a rescheduling over a period of about 10 years;
- a rescheduling of debt at market interest rates, but with a maximum repayment period of 25 years (instead of 20 years at present);
- a rescheduling of the debt at preferential interest rates, reduced at least by a half, with a repayment period of about 15 years.

I hope that this proposition will meet your approval and that of all the other Heads of State and Governments at the Toronto Summit.

I have already indicated that France intends for its part to offer, in any case, to all the relevant debtor countries who wish it, to cancel a third of its loans; this option, which gives the advantage of an immediate reduction in debt servicing, seems to me the most suitable to meet the situation in the poorest countries.

Mr. Allen
12/2.

Pyg

FROM: J GIEVE

DATE: 9 JUNE 1988

PPS

cc PS/EST

Sir G Littler

Mr Lankester

Mr H Evans

Mr Mountfield

Mr Bottrill

MITTERAND'S DEBT INITIATIVE

Following our discussion with the Chancellor yesterday evening, we issued the following statement on his behalf to the Press:

"I am pleased to hear of President Mitterand's espousal of a variant of the proposals I launched last year to help ease the debt burden on the very poorest countries. Coupled with Secretary Baker's remarks last week this clearly improves the chances of getting agreement on this issue at the Toronto Summit."

J. Gieve

JOHN GIEVE

FROM: A R BOTTRILL

DATE: 9 JUNE 1988

PS/CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir G Littler (o/r)
Mr Lankester (or)
Mr Mountfield (or)
Mr H P Evans
Mrs Thomson (or)
Mr Drummond (FCO)

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERAND

I attach a brief on Sub-Saharan African debt for the Prime Minister's meeting with President Mitterand. It has been revised to take account of the new French proposals, and agreed with the FCO.

AR Bottrill

A R BOTTRILL

Handwritten notes in red ink:

I have ~~backlogs~~ / still omits 2 key pts!

But (i) ~~every~~ / ~~for~~ (ii) countries can't repay a full

(i) countries can't repay a full

(ii) ~~from~~ / ~~that~~ / ~~debt~~ / ~~be~~ / ~~reduced~~ / ~~in~~ / ~~another~~ / ~~way~~

... ~~that~~ / ~~debt~~ / ~~be~~ / ~~reduced~~ / ~~in~~ / ~~another~~ / ~~way~~

CONFIDENTIAL

HM TREASURY

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

10th JUNE 1988

SUB-SAHARAN AFRICA: CHANCELLOR'S INITIATIVE

Line to take

Eager to reach agreement at Summit on helping the poorest, most debt-distressed countries. Thank President Mitterand for his letter. Glad he endorsed reductions in interest rates - as proposed by Chancellor - which are a positive way to help such countries. French proposal for cancellation of part of rescheduled debt also offers useful option and we shall want to study it further. US proposal for rescheduling over longer periods does not go far enough. It will be important to ensure burden-sharing between creditors. Important that we who have so much at stake in Africa should work together at the Summit to secure agreement.

Background

2. The Chancellor's initiative was announced in April 1987. He proposed that very poor debt-distressed countries - with per capita incomes of less than \$425 a year - who were carrying out adjustment programmes approved by the IMF and the World Bank should be helped by the ~~conversion of existing aid loans into grants~~ ^{write off} ~~Retrospective Terms Adjustment of RTA~~, by rescheduling their debts over longer periods, and by cutting interest rates to prevent the compounding of debt. ^{So far as UK can contribute} There is not much scope for further ~~RTA~~ ^{aid loan write-off} - the UK has done this for most countries. Longer grace and rescheduling periods (over 15 and 20 years) have been allowed to 10 countries in the Paris Club. Little progress, however, has been made so far in reducing interest rates, largely because of US opposition.

A

3. The US line is that they are prevented by 'political, legal and budgetary constraints' from reducing interest rates. The US Treasury Secretary, Mr James Baker, ^{State} confirmed this at the African Development Bank conference in Abidjan ^{before this week} in early June but announced that the US were "willing to extend the range of options within the Paris Club": some countries could offer concessional interest rates while others could reschedule over a longer period. This is an idea that comes from the Canadians who were hoping to produce it at the Summit as a compromise.

4. The French ^{variant} ~~initiative~~ described in President Mitterand's letter of 7 June to the Prime Minister gives creditors three options: first a new option for ^{those} countries to cancel a third of debt being rescheduled at each Paris Club exercise with repayments of the ^{remaining two thirds} rest of this debt over 10 years; second, ~~a variant of the Chancellor's initiative by suggesting that countries might reduce interest rates on rescheduled debt by a half;~~ and third, a variant of the US-Canadian proposal by suggesting that countries ~~choosing longer maturities~~ ^{not willing to give a subsidy by cutting the first two notes} should reschedule over 25 years. The French plan to pursue the first option.

5. The key issue with these three options of interest relief, longer maturities and debt cancellation will be to ensure equality of burden-sharing between creditors. The Chancellor's ^{original proposal} ~~initiative~~ ^{was} ~~which allows creditors to opt~~ for an interest reduction of perhaps 3 per cent ^{which would} ~~provides~~ debtors with immediate relief on their interest payments and helps ^{to} prevent cumulative increases in debt from the compounding of high interest rates; debtors would also receive a grace period of 5-10 years before repayments began. The French option of debt cancellation would also result in lower interest payments as a result of the reduced stock of debt, but principal repayments would be likely to start earlier than under the Chancellor's ^{proposal} ~~scheme~~. The US proposal for longer maturities would imply no reduction in interest payments and the US so far has resisted lengthening maturities beyond the 20 years already granted to some African countries. It will be important that we push the Americans as hard as we can, ^{at least to 25 years}.

~~So this option will do nothing to reduce the total burden of debt for the countries concerned, and it is an actual reduction in the burden which~~

as proposed by the UK

an interest rate subsidy (he suggests halving the rate) with repayments spread over 15 years;

7. 6. An important aspect from the creditors' point of view will be whether those who offer either lower interest rates or debt cancellation in return for early repayment will be able to have their claims given seniority in any future reschedulings. The US has resisted this so far. It will be helpful to have President Mitterand's view on this. The French are expected to suggest that Summit leaders should agree a menu of options and remit the details to be agreed by a special Paris Club working party in July.

8 7. **Other countries** have also shown signs of movement. The **Germans** are considering more RTA in tranches related to IMF or World Bank conditionality. The **Japanese** will ~~still look for equivalent measures and have said that they have money available if this can be agreed.~~ (according to Press sources) are likely to make a

proposal. This is that ^{the} IMF set up a special trustee fund which would be used as collateral to back bonds to be issued by debtor nations. These bonds would then be swapped, at a discount to their face value, for debts owed to commercial banks.

aimed primarily at middle income debtors

A

3. But reducing interest rates - or an equivalent measure that actually reduces the debt burden - is essential. The bottom line is that, at present, a number of countries ^{simply} have no prospect of paying their debts in full. ~~That~~ ~~the~~ ~~initiative~~ which recognises this, is thus enlightened realism. But to ~~By~~ ~~the~~ ~~same~~ ~~idea~~, But ~~But~~ ~~for~~ ~~the~~ ~~same~~ ~~reason~~, rescheduling alone will not be enough; the burden has to be reduced in some way.

Recognizing this is simply enlightened realism.

300 London health jobs to go in £4.6m cuts package 20

David Brindle
Social Services Correspondent

ALONDON health authority is to axe the jobs of 333 staff, including 34 doctors, in one of the most drastic packages of spending cuts in the National Health Service.

West Lambeth health authority decided to go ahead with the cuts at a nine-hour meeting which ended in the early hours of yesterday morning.

Authority officials hope to achieve most of the losses through non-replacement of staff, non-renewal of contracts and voluntary severance. They think there will be about 50 compulsory redundancies.

Although cuts totalling £4.6 million have been agreed, some proposals were not approved and the authority remains about £500,000 short of a balanced budget for 1988-89.

More cuts are expected next month. The authority is also to announce the closure of the Phipps respiratory unit, the only one of its kind in the UK for people with severe breathing difficulties, unless the Government or other health authorities take over the bulk of its funding.

West Lambeth has a budget

allocation for 1988-89 of £87.6 million, of which more than half is accounted for by St Thomas's teaching hospital.

The authority decided to continue for a further year the closure of 181 beds at St Thomas's, but to open a further 16 private beds and to reopen one of four closed operating theatres as a designated private theatre. This is intended to raise £200,000.

While authority members voted 12-5 to block the planned closure of a further 28 beds, their chairman warned later yesterday that this might be unavoidable next month if a balanced budget was to be set.

Mr John Garnett, who had used his chairman's casting vote to carry some of the continued bed closures and the private beds expansion, said: "We have simply got to pass a legal budget and, if we cannot find another way, then we may have to come back to this. We have to make it absolutely clear what the effect of all this is."

West Lambeth has suffered from loss of grant and spent £3.8 million more than its 1987-88 budget.

The job cuts are: 34 medical posts, 101 nursing, 66 administration, 62 professional and technical, 43 ancillary and 27 works and maintenance.

DAILY EXPRESS

Edwina backs sponsored ops

EXPRESS REPORTER 7

HEALTH MINISTER Edwina Currie yesterday urged businessmen to help pensioners skip long NHS waiting lists by sponsoring them for private operations.

She said that big businesses could use cash earmarked for sports sponsorship and entertainment to pay for countless hip replacements and cataract operations.

Mrs Currie said she welcomed the decision by a new national magazine for OAPs to pay for a hip replacement for a 75-year-old woman.

But Labour health spokesman Robin Cook slammed it as a "stunt in bad taste".

The first issue of Bristol-based Retirement World says it has cancelled a £4,000 launch party to help Mrs Marguerite Law beat a three-year NHS waiting list.

Mrs Law, of Moseley, West Midlands, will have the operation at the private Nuffield Hospital in Edgbaston, Birmingham.

Mrs Currie said: "The Government welcomes any cooperation between the public and private sector which can be of benefit to patients."

A Ministry spokesman said: "We see nothing wrong in private businesses sponsoring private business operations in this way."

Magazine urges firms to get hip to sponsored surgery

Seumas Milne 14

THE prospect of Vladivar varicose vein operations and hip replacements brought to you by Heinz was welcomed by the junior health minister, Mrs Edwina Currie, yesterday after a pensioners' magazine decided to cancel its launch party and sponsor a private operation for a 75-year-old woman on an NHS waiting list.

"The Government welcomes any co-operation between the public and the private sectors which can be of benefit to the patients," Mrs Currie said. A DHSS spokesman said the department saw nothing wrong with sponsored operations if that was what companies wanted to do.

Labour's health spokesman, Mr Robin Cook, called the magazine's behaviour "an outrage and demeaning". He said patients deserved to "expect their operations as a right and not to assist in commercial stunts".

Mrs Currie's pronouncement was in response to a suggestion by Retirement World, a free Bristol-based magazine for the elderly, that big business should switch its sponsorship from sport and entertainment to private cataract and hip operations which have long NHS waiting lists.

To make its point, the magazine has used £4,000 earmarked for an extravagant launch party for its advertisers to pay for a hip replacement at a private hospital for Mrs Marguerite Law from

Moseley in the West Midlands, where NHS patients have to wait three years for a hip operation.

The magazine's editor, Mr Tony Ferrand, said yesterday: "We believe in a free health service, but what is a principle against the chance to give someone the gift of mobility?"

Mrs Law had her first hip replacement three years ago, paid for by family and friends. She is delighted that someone is now prepared to sponsor her second operation. "I've got an active mind and there is nothing more frustrating than being crippled. There is so much money lying around in the world of business, and if some of that can be used to help people then the world would be a happier place".

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CC - EST
SIR P. MIDDLETON
SIR G. LITTLE
MR LANCASTER
MR MOUNTFIELD
MR H.P. EDWARDS

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Mr THOMSON
Mr BOTTRILL
9 June 1988 Mr PROMMOND. (FCO).

Charles Powell, Esq
PS/Prime Minister
No.10 Downing Street
London SW1

Dear Charles

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

... I attach briefing on the debt issue.
I am copying this letter and enclosure to Lyn Parker (FCO).

J M G TAYLOR
Private Secretary

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HM TREASURY
PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND
10th JUNE 1988

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